

Interview with Edgar J. Gordon

Association for Diplomatic Studies and Training Foreign Affairs Oral History Project

EDGAR J. GORDON

Interviewed by: Charles Stuart Kennedy

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Q: I wonder if you could tell me when and where you were born and a little about your family?

GORDON: I was born on July 27, 1930 in New York City, in the heart of Manhattan, actually. I spent my whole youth in various parts of the city, except for a year in New Jersey as a child of eight, but mainly in Brooklyn, until I graduated from New York University in 1951. My family were Russian Jews. My father was actually born in a little town called Glubueke about 100 miles from St. Petersburg. He emigrated to the United States as a small child. My mother was born in New York City. Her parents, my grandparents, emigrated from Minsk in the 1880s.

My early education took place in New York City public schools. Believing that I wanted to be an engineer, thereby following in my father's footsteps, I passed the competitive examination to enter Brooklyn Technical High School, where I chose the pre-engineering college course. After a few years, it became obvious that my aptitudes were better suited to social rather than physical science (I won the social studies prize at graduation). Receiving a New York State Regents scholarship enabled me to go to New York University where I majored in economics and history. After graduation, I went to Princeton

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University on a fellowship in 1951 to study for a Ph. D. in economics. My course requirements for that degree were satisfied by passing a general examination in January, 1953. Shortly after, I was drafted (it was the tail end of the Korean war) and spent twenty-one months in the Army as a medic, mostly in rural France.

Q: What was your father's profession?

GORDON: Mechanical engineer. He worked mostly in and around New York City in various sorts of jobs such as in charge of maintenance on the Manhattan Bridge for the WPA and at an Army arsenal manufacturing anti-aircraft shells in New Jersey in the 'thirties and, during the war, on landing craft design for a company called Gibbs & Cox. After the war, he went to California for a few years, for a company in Sacramento designing missiles for the Defense Department. His speciality was piping systems, a skill transferable to a number of different sectors. He returned to New York in 1962 and retired there, dying in 1965.

Q: How did a man growing up in a small town outside of St.Petersburg end up as an engineer in New York?

GORDON: Well, he was only 5 or 6 when he came to the States and so had all his education here. He went to the Cooper Union engineering school in Manhattan at night, working during the day. He withdrew at the end of the third year from exhaustion.

Q: What pushed you toward the economic-history side?

GORDON: I was interested in Europe because in a city full immigrants from there, European culture and attitudes were strong. That led to an interest in European history. By my senior year in high school, I had decided to be an historian. But I was became interested in economics after taking an introductory course in my freshman undergraduate year. I had taken economics as a useful auxiliary to my main interest in history. But economics with its elaborate theories intrigued me. It also occurred to me that there would

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be many more career options if I majored in economics rather than history, which led, as a graduate pursuit, only to teaching. In practice, I took enough credits to major in both of them.

Q: Did you have any interest in foreign affairs at all as an undergraduate?

GORDON: I was interested in foreign countries I should say from a very early age. I was very much interested in geography. I loved geography. I had a desire, I don't know where it came from, to travel. Living in fact a very parochial life within the narrow confines of the New York area until graduation from college, I longed to go to Paris. (I had taken French in high school and German as an undergraduate.) A career in the Foreign Service clearly responded to these feelings. Toward the end of my graduate student days, I took the Foreign Service Examination and passed the written part. I decided not to sit for the oral. My fear was that after spending all this time studying economics, I would end up in an obscure country on the Consular desk. My own experience, in various embassies, although after the establishment of the economic cone, in the last 15 or 20 years, confirms my decision.

Fortunately, I stumbled into the ideal combination of foreign affairs/economics career, i.e., the international affairs branch of the Treasury, when looking for a job at the annual meeting of the American Economics Association in 1955. I had no idea that such an organization existed. I ran into a booth or table that was manned by Ralph Hirschtritt and Henry Bitterman, a distinguished former professor of economics who was there to recruit after the hiring freeze at the end of the Korean War.

The office was really quite small as a consequence of the freeze and the effect of McCarthyism. There were some Treasury types, Harry Dexter White, for example, the assistant secretary in charge who were communists, and there were others who were suspected by one group or another with or without justification. They had not recruited

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anybody for about four years and were looking, therefore, for some four to five new people. The number of office professionals was probably less than 50 at that time.

Q: The office being...?GORDON: The office had various names over the years. It is now called The Office for the Assistant Secretary for International Affairs. At that time it was called the Office of International Finance. Earlier, it was part of a larger group that did both domestic and international economic research but was separated in, I think, 1948. Ralph Hirschtritt could tell you those things because he was there.

But as I recall, every professional staff member would meet once a week in a moderately sized conference room. There were perhaps 35 of us. In addition to those people, there were, I think, about 15 people overseas. So you could say that the rough number was about 50.

In the Treasury, which separates line duties, i.e., IRS [Internal Revenue Service], Customs, Fiscal, etc., from policy making, this section is part of the Office of the Secretary, a rather different concept than that of the State Department. It also includes tax and financial and enforcement policy. It is located in the Main Treasury building and probably has less than 500 people compared to the 100,000 plus staff of the line bureaus with their intricate and nationwide tasks to perform.

International affairs, had two major areas when I joined it in 1956. One was concerned with the relationship of the dollar to other major foreign currencies. The office originated from the staff requirements of monitoring the Tripartite Monetary Agreement of 1936 with Britain and France. Backstopping the U.S. director to the IMF [International Monetary Fund] was part of this group. The other was concerned with developing countries and included supporting our representation to the World Bank and the regional development banks. By law, Treasury is responsible for appropriations for these organizations and nominates the U.S. directors and other personnel.

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I was part of the section concerned with developing countries for my whole Treasury career except for my two postings to France. Besides the country desks and those concerned with the banks, offices related to the U.S. aid program. Commodities and debt were latter added as these became current issues.

The office budget was paid for from the earnings of the Exchange Stabilization Fund. It was not submitted to Congress for approval until the mid-1960s. Spending, in general, was austere but promotions were more rapid than they would have been if they had had to be justified annually.

On the “dollar side” of the house, the currency was not “managed” until the float in 1971. The dollar was defined in relation to gold and other countries dealt if their inflation was of out line with ours. The 'fifties was the era of the “dollar shortage.” We were concerned with financial crises in Britain and France. After Europe recovered (except Britain) the 'sixties soon turned into the opposite- a U.S. balance of payments deficit that was considered unsustainable. The Treasury responded with many half measures, which dominated office-wide policy making, but nothing took care of the problem until we unhooked from gold and depreciated in 1971.

The “poor country” side focused on major U.S. aid programs and the operations of the multilateral organizations in those and other countries. Occasionally, the Treasury participated directly in an IMF stabilization program through short term credits from the Exchange Stabilization Fund.

Q: I'd like to back up just a touch.

GORDON: Okay.

Q: First, you were at Princeton from when to when?

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GORDON: 1951 to 1953. And then I was drafted in the Army and came back in the beginning of 1955 and was there for another year.

Q: First place, at Princeton, what area of economics were you working on?

GORDON: Oh, I don't think it was any area. We were taking all sorts of courses in international trade, money and banking, corporate finance, business cycles, regulation of industry, etc. The whole gamut, in fact. Specialization came with the thesis.

Q: You served in the Army for two years?

GORDON: I was drafted out of graduate school. It was the tail end of the Korean War but I was sent to Europe because the war was over before my basic training was finished. On arrival, I asked to be posted to France because of my command of French.

Unfortunately I would have had a nice assignment at SHAPE, Headquarters [Supreme Headquarters Allied Powers Europe] which was then in Paris but I didn't know how to type. One of those rare Americans that never learned how to type properly. So I ended up in a little camp way out in the west of France in the Vendee, near Brittany, where I first became a medic and then was made responsible for hiring off-post housing, because I could speak French, for officers and enlisted men who had families who had access to off-post housing. We had a very small camp there. Only the single people, those that didn't have families would live on post. In retrospect, it was my first experience in diplomacy. Because you are between a foreign audience which is sometimes difficult to satisfy and your own superiors who often don't understand what your problems are. I didn't fully comprehend the problems of being an intermediary until after I had been working for in embassies and began to look back at this experience. I was of course young, 23 or 24- it was a lot of fun. Basically, I introduced a certain amount of competition into the market that my predecessors who were regular army types, who were either limited in one case or

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corrupt in others, had failed to do. So I had a fairly successful career. I was a private and had considerable respect from majors and colonels because of my job performance.

I came back to America just before Christmas, 1954 and went back to Princeton right away. I chose a thesis topic, the theory of inflation that was too difficult and then switched to the "French post-war inflation" which I did not finish. Then I started looking for the job, at the end of 1955 that I have already described.

They brought me to Washington about a couple of months later for an interview and offered me a job the same day. But then it took six months to get a security clearance in those days. So, I went back to Princeton and worked on my thesis and did various things. And became engaged to a woman who has been my wife for the past forty-two years.

It was only in October 15, 1956, (I remember the date quite well because it is also my son's birthday) that I joined and remained for twenty-nine years until December, 1985.

Q: At first you were dealing with international finance. What did they do with you in your initial job?

GORDON: In my initial job, I was assigned to developing country area. And of course, we had a very small staff. So there was no such thing as a desk officer for one developing country- you usually handled a bunch. The group that I was involved with at that point included the Philippines and what was just becoming the successor states to French Indo-China: Vietnam, Cambodia and Laos. And we had major aid programs there and the Treasury was worried that the basis for aid was faulty. Since the objective was military budget support, the United States would supply a certain amount of local currency which would be designed to keep a certain local force level in place.

The calculation of the necessary dollars was reached by simply converting the local currency at the prevailing exchange rate. The dollar grant was then used to import goods. While the use of the dollars was somewhat controlled through various procedures, the

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amount of aid was determined, in most cases, (I think there were a few projects as well), basically by the military budget requirement in that country. We agreed on a force level and then you agreed on how much it would cost in local currency converted to dollars.

The Treasury was saying “Look, this exchange rate is really quite artificial.” It was something that the French worked out years before in a different situation which they were satisfied with and looking at the black market and other indicators suggested that it was seriously overvalued. AID [Agency for International Development] (called ICA [International Cooperation Agency] in those days), is spending too much money to achieve its objective. It was not questioning the objective but thought it could be done more cheaply.

And so we set up a working group under the National Advisory Council [NAC] which was an organization, chaired by the Treasury, which was more important in those days, with various working groups below it which was supposed to coordinate international financial policy. They made me secretary (drafter) of several of these working groups on Indo-China. We did reports on the exchange rate situation in collaboration with some people from other agencies. At the working group meeting, there would be people from State, ICA and the Federal Reserve who took the most important roles. I would revise the drafts after hearing comments and create a paper which, when we reached agreement, would then be circulated among the agencies as an NAC position on this subject. It became the basis of an action plan.

I was involved with Vietnam first and then Cambodia and Laos. That was pretty much the most important part of my work in my first year in Washington. The second year of course, I went to Paris. So basically you are asking is, what kind of training they gave you, what kind of indoctrination they gave you? The answer is practically none. It was pretty much an apprenticeship sort of operation. You were given a job to do and you could ask questions and people were friendly enough and they would point you in one direction or another.

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As I say, Ralph Hirschtritt was my first boss. I got along very well with him and learned various things simply by talking to him, watching people in meetings, and reading. Since we had these four or five countries plus a few others I can't remember, we'd get a flood of cables from the embassies and AID missions. Anything that was related to economics was given or copied to Treasury. So you could spend your whole day reading if you didn't watch yourself.

I had a few jobs concerned with the Philippines too. We had issues such as sending money to the many people in the Philippines who were getting U.S. checks for pensions, social security payments, or had been veterans of the American armed services who were resident there. We had a problem - how we could get that money to them without it being shifted into the black market. We were also being bombarded with claims that had to be looked into.

So that was the first year. Then I got what I really wanted.

Q: Still sticking to this first year...did you get any feel from you colleagues and all about the relationship between Treasury and State and maybe the Pentagon too?

GORDON: Treasury and State. I'm not so sure about the Pentagon. Pentagon really didn't enter directly into our relationships. It was more Treasury, ICA and State. There was always the tension between the economic objective and the political objective. I mean by that, State's political objective with ICA, in this case, was basically an auxiliary in this type of situation. The whole series of AID programs in the 1950s were designed to support a military-political result -the Dulles containment doctrine. Any development impact was secondary. ICA was in effect the implementing agency but State was the director.

You know, State Department people would say that is all very well but if we have a serious devaluation it will create unrest. In effect, we were going to reduce the quantity of imports when you have a different kind of exchange rate. And then we would argue that you are

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assuming there is no flexibility in their export side and that a more realistic exchange rate would be good for them anyway because the overvalued exchange rate is holding back their development.

Of the State Department people, there were a few that knew economics pretty well—one or two from the finance division of the E Bureau [Bureau of Economic Affairs] who weren't foreign service officers. In those days, State still had a number of civil service types who had come in during the war and hadn't been and were not required to convert. Some of them were technically well equipped. Among the foreign service officers at the time it was rare to find one that knew much economics. Whether the poor countries were sufficiently flexible to respond to a depreciated exchange rate in a way that would facilitate their growth was a constant bone of contention between Treasury on the one hand and State and AID on the other.

Almost all the Treasury issues in development were concerned with whether the AID program was over-funded and whether it was efficiently doing what it was supposed to be doing. I don't think Treasury ever took the position that you shouldn't give aid to this or that country. It accepted that giving aid was a foreign policy decision. But it did spend a lot of time worrying about how it was functioning. ICA at that time had a lot of types whose knowledge of macro-economics was really quite minimal. They were basically project people who never really considered how their projects fit into an economy but were concerned with project criteria when deciding these things. We were often contemptuous of their attitudes, a feeling that did not facilitate discussion.

Q: In other words the Treasury was acting more or less although it was not the official position but acting as a monitor—was the money being well spent.

GORDON: Yes. I think it came out of the general sense that the Secretary of the Treasury is the chief financial officer of the government and that he has an obligation and that Congress would consider that the Secretary has this obligation and he should carry it out.

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Even though strictly speaking the budget function had no longer been in Treasury since 1920, he had a purview wherever financial/ economic policies concerned - domestically, or in this case, internationally. I don't think anybody challenged that. They would challenge particular judgements, of course.

Q: Well, it makes sense. It is playing a role although it probably wasn't spelled out that precisely on paper. I mean somebody has to try to...

GORDON: Except that, I think it was the Bretton Woods Act that set up the U.S. membership in the World Bank and the IMF at the end of the War and created the National Advisory Council which was the instrument that coordinated national financial policy. The Secretary was the chairman of the council. The council itself rarely ever met. It generally met either at a working group level or occasionally at a deputy assistant secretary level, rarely at an assistant secretary level. But in effect these working groups were the way these various issues were coordinated. There were other organizations to coordinate Public Law 480, chaired by Agriculture and AID had the Development Loan Fund Committee on both of which Treasury had representatives. In fact, at various times, I was the Treasury representative on both of them. The Treasury's concerns was basically to maximize the balance of payments benefits. This was of course much later on in the 'sixties and after.

Q: *Who was the Secretary of the Treasury when you first came therin 1956?*

GORDON: George Humphrey was the Secretary. He left there in 1957 and he was followed by Robert Anderson. And after Kennedy was elected, Douglas Dillon became the first Secretary under the Kennedy administration.

Q: Sticking with that, I realize that you were pretty far down on the pecking order but did you note any particular interest of either Humphrey or Anderson in sort of the international field or were they more concentrated on the domestic?

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GORDON: Well, I remember that Humphrey was the one that raised the issue with the staff about growing U.S. liabilities to foreign central banks. At the end of the war, our gold reserves were very large and foreign official deposits, i.e., those that a potential claim on them were small. Then, gradually, as Europe recovered, they developed overall balance of payments surpluses. Those surpluses showed up in dollar balances held by the central banks and treasuries of these countries.

Initially, everybody said well this was fine because the whole purpose of the Marshall Plan was to get Europe on its feet and get their balance of payments in order. All the countries followed this pattern except France which did not shift into surplus until 1960. The effect of these surpluses was to increase the ratio of U.S. liabilities to our basic asset, gold. No one thought about this, as I say, because that we were talking about the dollar shortage in the 1950s. And, in fact, a book came out in about 1957 or 1958 talking about the causes of the dollar shortage and speculating that it would be structural...all the while the rest of the world had an overall surplus with the United States, including of course U.S. capital exports. The assumption was that the balance of trade surplus was enduring and that capital exports were offsetting it but that they could be turned off any time leaving the United States with a huge trading surplus at the time. So the staff was skeptical.

Humphrey said that sooner or later if this continues, we will have a situation in which foreigners will be able to convert huge amounts of gold if they so choose. What happens to our reserve asset? What do we do? Can we maintain the same price of gold, which had been the linchpin in world finance, at \$35.00 an ounce. Humphrey proved to be correct. The balance of payments deficit became worse and in October, 1960 speculators tried to push up the price of gold in London.

Anderson, I think, in the late 1950s was concerned with it. As far as developing countries are concerned, at my low level, I had no impression that the secretary had any interest in those subjects. And they were not burning issues in those days in the sense that the administration could get its aid program accepted without difficulty. The things the

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Treasury was concerned with, subscriptions to the World Bank, IMF, were not the difficult congressional problems that they became later on.

In fact, in 1959, the big developing country issue was helping Latin America as a result of Fidel taking over Cuba. The Treasury was tasked with creating a bank-the Interamerican Development Bank-and that became the number one project I think in the developing country area. It was established in 1960 and expanded even more wheKennedy came in with the Alliance for Progress relationship.

Q: Well then in what...1957 you went to Paris?

GORDON: 1957.

Q: And you were there from when to when?

GORDON: September of 1957 and came back about August of 1960.

Q: What was your position when you were there?

GORDON: Treasury international affairs had a division of the economic section. That is, the senior Treasury attach# was the section chief within the economic section, reporting to the minister for economic affairs. And he had an office of I guess-four or five when I came-it became four a little bit later-of whom I was one. There were two foreign service officers-three foreign service officers at one point- but it had been even larger before under the Marshall Plan (1948-1953).

But for most of the time I was there, there were four of us. During my stay one of the foreign service officers was about the same rank I was and one was a little more junior. This was an important training post for FSOs [Foreign Service officers] involved in economics. The Treasury attach# had been there for a long time. He had come in 1947 as

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the junior man. And Don McGrew, you may have heard of him, stayed until he retired in 1975. He was an exception to our general rotation policy.

I was given aspects of the French economy to study: the exchange control system, the balance of payments, the financial policy of the Bank of France and so on. Those were my subjects within the office.

Q: Who do you feel was your master there...Treasury, State?

GORDON: Treasury. Well, because my boss was the one who liaised with the rest of the section. I had contacts with the others but formally I was working for him and he was working for the economic minister. That is the way it worked. His relationships were very good with the State Department. He had been there a long time.

Q: Who was the ambassador at this point?

GORDON: Amory Houghton was the ambassador. Jack Tuthill was the economic minister for the first couple of years. And Jack Reinstein succeeded him for the last year that I was there I think as a matter of fact. Those were the principal people there. The first year and a half was a very exciting period because Treasury work was interesting when you had problems to solve. In an embassy, if the country you are involved with has problems to solve and the United States is part of it, then what you are writing and what you are doing is important because people are really looking at it and trying to make up their minds about how bad the situation is and what should be done.

The French had had a very serious balance of payments crisis as a result of the Algerian War in 1957-58. They used up all their credit in the European Payments Union by the end of 1958. De Gaulle came in in the spring of 1958 and appointed Antoine Pinay as Minister of Finance. De Gaulle realized that if he was going to anything with France, he had to put the country on a sound financial basis. Otherwise he would always have to run

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begging to the United States which was the last thing he wanted to do. They had a serious devaluation at the end of 1958.

The United States relationship with France was still close at this point. We had been helping by persuading the IMF to support France, by rescheduling some debt that the French owed us and that kind of thing. And we were involved in the planning...we were actually given word of the devaluation ahead of time which is a very rare thing.

My boss let me know. There were only four of us in the U.S. embassy that knew: the ambassador and three of us in the finance section. I was given the duty in the economic section the day before it was about to happen because they wanted someone who was aware of what was going to happen to be there in case messages had to be relayed. It was Christmas, 1958. I was sitting there all day waiting for something to happen.

Q: What did this do?

GORDON: It radically changed the whole situation. Capital flowed back into France and debts were paid off. For a about six months it was interesting reporting the improvements but after that much of the work became much duller because there were no problems.

Q: Oh, yes. The adrenaline starts running when you have a problem. I'd like to stick to certain periods. We are talking about the 1957-60 period in Paris. What was your impression and how were your relations with the Ministry of Finance and its officials?

GORDON: Oh, they were very good. We had very close relationships with the Ministry of Finance. Of course mine were more junior than my bosses were. But I mean, whatever people I had to see at my level there was no difficulties. We were quite friendly. The French believe in sort of a professional camaraderie. If you are a career Treasury type you are in a different classification than if you are a diplomat. Similarly the Foreign Ministry would regard diplomats one way and ministry of finance people a different way. It was as if you are a soldier and I'm a soldier and even though we are in different countries

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we, nevertheless, understand the problems of our profession. That was the view that the French Ministry of Finance would take even if we had disagreements over particular issues. We always considered each other colleagues.

Q: Did you find that the French financial professional was a different breed than say others you dealt with? I had always heard this is sort of where the “creme de la creme” go I think. Inspectors of finance and so on.

GORDON: That is right. I think they were very good. Their knowledge of economics in the broad sense at that time was not very large because French economic education was poor. But you were dealing with very able people, particularly at the more senior level. They came mostly through the ENA (Ecole National d'Administration) circuit. Treasury had a monopoly of relationships with the Ministry of Finance and the Banque de France. The rest of the economic section would deal with other groups and nobody else ever went to the Ministry of Finance, or the Central Bank, unless it was the ambassador or some big issue came up which required the economic minister to go. But of course he would always go with a Treasury man.

The Ministry of Finance was a very large organization which also included what we would call the Department of Commerce in the United States and the planning commission.

Q: Did you feel the heavy hand of Gaullism when you were there?

GORDON: Yes. I think soon after the financial stabilization took place and De Gaulle realized that basically the balance of payments problem was solved for awhile. That was clear by the beginning of 1960.

Then De Gaulle said, “We've got so many dollars and really I don't think we ought to keep so many dollars. We should convert some of these into gold.” So that of course was Treasury's immediate problem. As I was saying before this general balance of payments issues was started developing in those years and the French, or I would say De Gaulle

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basically for the political reason of showing that he was independent, started requesting conversion to gold. Legally there was no way the U.S. could stop him. I mean he had a right to do that and of course we were unhappy about it. But it did stimulate a kind of world wide awareness about this issue which in fact led to a flurry of speculation on London gold market which had stayed right at \$35.00, in October, 1960 just about the time our election was taking place. It required the U.S. to intervene in the gold market in Britain. That was the beginning of the whole gold and the balance of payments issues which led to the floating of the dollar in 1971.

So in effect from that point on, the French became, particularly on the financial side, at least officially our foes you might say, always giving us problems. I came back to Paris in the late 1970s but we can talk about that later.

Q: What was the reaction of the embassy when De Gaulle started saying all right, we have enough dollars. Let's get more gold. Were you given marching orders to fight some sort of defensive battle?

GORDON: No. Not particularly. That was something Washington had to deal with. We couldn't do much. He had a perfect right to demand the gold, and given our relationships, there was no way to persuade him. I don't know at the time whether my boss discussed this with people in the Ministry of Finance. I didn't at my level.

Q: How did you find living there? Did you find it having a sort of entree to Ministry of Finance made it easier to live in France?

GORDON: No, no. Living there was very pleasant. I am sort of a Francophile in spite of some difficulties I have had over the years professionally. And in fact probably the whole reason I got into foreign affairs or foreign travel was because I wanted to live in France. So it was delightful for me. I had lived in France for a year in the Army and had quite a bit of freedom even though I was in the military at the time. Living in Paris for three years at the

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embassy and at a time when the exchange rate was very favorable most of that time was a great experience. And I was just married.

There were certainly some problems living there-Paris wasn't the United States but nothing to be worried about in those days.

Q: Were you in Paris when De Gaulle came into power?

GORDON: Ironically, I went off on my vacation on May 13, which we had planned several months in advance, the day when the Algerian uprising started. We didn't want to go in the summertime. We were going to Italy. By the time the thing really got started, say three or four days later, we were in Italy. And we had no real information except what we could glean from Italian newspapers. Since neither one of us spoke Italian, we had to guess, based on my wife's knowledge of Spanish and mine of French. By the time we got back, it was over. We were there about two and a half weeks and it was over by the end of the month. The only glimmer we got in Rome was that the franc dropped very sharply for a couple of days when there was some fear that there was going to be real chaos. But as soon as it was clear that De Gaulle was going to take over, the currency strengthened. We came back across the Italian-French Alpine border and stopped at the first French store to pick up a newspaper. I started to talk to the storekeeper and I said, "What's going on?" And he said, "Tout est calme [French: nothing happened.]. But of course most of the action was in Algiers not in Paris.

Q: You know one had heard that there were concerns about paratroop landing in Paris.

GORDON: Nothing happened. And then De Gaulle popped in and gave his famous speech and then said "Je vous ai compris" (I understood you.) with the ambiguity that De Gaulle was so good at. I'm on your side fellows, but...

Q: Did you find a change in the Ministry of Finance, for example, in working conditions and attitudes?

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GORDON: No. There was no change there. Actually one thing happened when De Gaulle came in. He appointed Andre De Lattre who had been a senior Treasury official and was a good friend of my boss, as his personal economic advisor. This, of course, gave us access in a way to the Elysee because De Lattre and my boss, Don McGrew, were good friends which was an advantage to the embassy as a whole not just to us.

But it was clear particularly from that source that De Gaulle had these unbending attitudes, and much more important than the gold issue was his statement requesting the U.S. to withdraw from its bases within the country and that France was withdrawing from the military command structure of the NATO alliance.

Q: I thought that was during the Johnson administration?

GORDON: According to the agreement we had, you had to give five year's notice. The actual withdrawal didn't actually take place until 1964 or 1965.

Q: How did you find the economic section worked with you? Was there much swapping of information or did you kind of go your own way?

GORDON: No. We had regular staff meetings. We all knew each other personally. As I say, there were foreign service officers within our group as well as outside. My boss's relationship with the rest of the group was very close, very cordial. Particularly because he had been there for so long and he had more background than anybody. He was the memory. He was really the "Number 2" man in the economic section to the minister. We had good relationships. I don't remember any particular frictions, either substantive or personal.

Q: How about relations back with the Treasury Department? Did the "understand" you or not?

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GORDON: I didn't have any relation with the Treasury Department because my boss did. We would see people from Washington from time to time. Before jet planes it was a real trip.

Sometimes they would come for a meeting of one kind-the OEEC [Organization for European Economic Cooperation], and then they would come over to the embassy for a talk. The man who was chief of the European division within Treasury at that time would come and talk to me and tell me what he thought of my work or what or ask about my relationship with my boss. A supervisory kind of relationship-to see how I was getting along. But that only happened once in a while. I never went back-we didn't send people back on consultation. It certainly wouldn't have applied to me. He may have gone back once during the time I was there.

So my relation with Treasury was limited to the people who came through. I probably saw more senior Treasury staff than most personnel abroad, including the director of International Affairs, because so many meetings took place in Paris. We had the NATO meetings in Paris at that time. The Secretary of Treasury would come for the annual meeting. I would accompany my boss to the airport and collect the Secretary's baggage from the air force airplane that brought the delegation and deliver it to his hotel. My Director, George Willis, was determined that the misplacement of the Secretary's luggage at a NATO meeting in Istanbul should not happen again. I couldn't complain...I was a GS-9 and 11 [government pay scales] at that time and my boss was a 15 and he had to go out and carry the bags too. I had the incidental benefit of seeing John Foster Dulles in person and watching his very pleasant smile being turned into a grimace when the flash bulbs went off.

Our guests were very nice to me; they would always include me in what they were doing. Sometimes they would take me out to lunch talk about various issues in front of me, and listen, if I was daring enough to express an opinion. It was a good bunch of people. Everybody knew everybody so that when you were overseas if anybody came through the

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office they would come and say “hello”. We would chat or we would have lunch together. Actually my former boss in Washington, Ralph Hirschtritt came through once. He had gone on a trip to Asia and had come back through Europe. We took him to the Folies Berg#res.

Q: Well, then you went back in 1960.

GORDON: I went back in 1960. And went back to pretty much the same unit that I had left. But Hirschtritt was no longer there. A man named Diehl, who had been a Treasury attach# in Japan for a long time, was in charge. He was a very pleasant fellow, very easy to get along with but we had very little to do and, as I mentioned before, you could drown yourself in reading. I think I was involved peripherally in one way or another with a dozen different countries, including Japan that was still classified as an LDC [less developed country] until it joined the OECD [Organization for European Cooperation and Development]. It furnished one of my few interesting exercises when I was able to explain to the deputy undersecretary how Japan had skirted a balance-of-payments crisis by borrowing from U.S. commercial banks.

We were essentially a briefing staff. I mean, if something came up that someone more senior needed be informed about, I would do a little paper about this or that country or what this issue was and what the history of it was and that kind of thing. Sometimes I would make a recommendation and sometimes I would leave that to my boss. We were there to keep track of what was going on. But very few issues arose the from about September 1960 to September 1961. I reached the point where I was literally bored to death after a few months. I had had a fairly interesting job in Paris and had an interesting job before that. I would come home sometimes from sitting at the desk and reading all day and be sleepy after dinner, although I was only 30 years old at the time.

After a few months I got so tired of this situation that I began thinking that there must be something else I could do. Then a friend of my boss in Paris, whom I had met, asked

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to give a talk on certain aspects of the French tax system at the Harvard Center for International Affairs.

And when I was up there I talked to him. I had already called him and said, "You know, I don't seem to be going anywhere here and god knows when I'll go overseas again," because the junior people went overseas almost immediately for training but, afterwards, it could take 5, 10, 15 years before you could go again. He replied, "I know people in the Harvard Development Advisory Service who might be interested in you. I'll give you an introduction." As a result, I talked Gus Papanek, who thought that there might be possibilities in projects in Iran and in Pakistan." This was in March 1961.

David Bell, who had been appointed Director of AID had been chief of the Pakistani unit of this group. We discussed prospects for a while but Iran, the first choice, fell through. Pakistan I think was on the point of falling through but someone, at this point decided to check with Treasury to get a second opinion as to my competence.

They called George Willis, my director, who was unaware, of course, because I hadn't told anyone in the office that I was looking for another job. George, was a perfect gentleman from Oklahoma but with a Harvard degree. Here he was a GS-17 or GS-18 but he always treated me with respect. He called me at home one night and he said, in his sort of drawl, "I understand that you are looking for another job here." I explained the situation to him. He said, "Well," and this is really, when I think about it, one of the nicest things he could have done, "if you are unhappy with what you are doing now, you know the State Department has asked for a Treasury attach# in Korea." (This was ambassador Samuel Berger who been appointed in the late summer of 1961. As political counselor in Japan, he found his relationship to the Treasury attach# highly useful, an opinion not shared by many ambassadors of the Foreign Service, I might say, but there are few). George then said to me, "Well, I was going to turn him down because I didn't think that from Treasury's point of view it had a high priority," (even though it was the major aid program at the time) but

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if you want to go there, (sort of with the assumption that you're crazy if you want to go to Korea of all places!) I'll let you do it. And I will put your name forward if you want."

I thought about it and accepted. My wife was aghast that we were going to Korea. She had worked for the Air Force in Tokyo during the Korean War and so had a very special view of Korea. She didn't think it was a place anybody would want to live, particularly since we had a small child, our daughter, who had been born in Paris. But it went through. We went out there in the fall of 1961 and stayed until the summer of 1964.

It turned out to be the best single job I ever had in my entire life in terms of the professional challenges and even personal ones, to a certain degree. The relationship within the embassy, particularly with the ambassador, Sam Berger, was excellent. Philip Habib was his political counselor at the time. Phil was a protégé of Sam's because he had pulled him out of job I think as cultural attaché somewhere. He recognized the talents then which brought him to the top of the Foreign Service later. After a break-in period, Berger put me on the country team, a considerable promotion considering that my Treasury rank of GS-12 was equivalent to the then FSO-5 [a mid-level Foreign Service rank]. That made my relationship with the economic counselor, Al Papano, a little difficult. He wasn't unpleasant but he was really out of it.

Q: *No.*

GORDON: He was a good man but basically his specialty was commercial policy and it wasn't an important issue.

Q: *No, not in Korea.*

GORDON: Development and what the Koreans were doing about it was the primary issue. Relations with the AID mission which of course was very large and very influential had been close prior to Park's coup. There were no other sources of foreign aid to Korea. The World Bank had no program. There was no Asian Development Bank then. There was no

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Japan because Japan had no relationship with Korea in 1961. A few countries like France and Italy would come around and give export credits basically because they wanted to sell something to Korea. The U.S. was alone in the role and that and the security relationship made the American ambassador the "Number Two" person in the country.

Q: And you had a brand new Chief of State, Park Chung Hee who just "couped" his way in.

GORDON: That is right. He came in in May, the ambassador got out there in September. The initial embassy position in May was that this was all illegitimate and illegal. But Berger thought that there was nothing you could do about it and they had to develop a relationship with him. The new strategy was to ask the military government to seek the legitimacy of a free election, the way its predecessor had come to power. This position led to continuing tension between our leadership and theirs on political issues.

But with respect to economic policy, the Ministry of Finance and other economic ministries, which had, historically, very close relationships with the AID mission continued them, taking into account the importance of American aid. Under the regimes, prior to Pak, there had been joint ministry/AID committees on everything. The Treasury attaché who had gone there in 1953, Henry Costanzo, had been one of the architects of the arrangements. Berger and the new AID mission director, James Killen, had dropped this elaborate structure in 1961 on the grounds that it was too bureaucratic and bogged down the American side in too many unimportant issues.

But access on economic issues continued less formally, easily, and at all levels. There was never any question in the ministries but the staff in the ruling council that the military had set up was closed off with few exceptions. Most of them had some American education and liked Americans. The Koreans were an easy group to get along with. They had no, so-called Japanese-style complexes of one kind or another. They were straight forward in their views and frank - as frank as most Asians get. They would come out and say things directly and you didn't have to beat around the bush in working with them. And

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they were accustomed to Americans by that stage. They knew what to expect from us and were very good at manipulating us. I soon found that out.

This new arrangement left gaps in economic intelligence. While AID had a great deal of detailed information in sectors in which it was working, it had no sense of general economic policy. There was an economist in the AID mission with whom I got along quite well. But the director of the aid mission, James Dillon, former labor union leader who had been in AID or in the SCAP [Supreme Commander Allied Powers] in Japan for a long time, was strong willed and didn't like economists at all. He paid little attention to his own man and when his tour of duty ended, which was just six months or so after I arrived, he didn't appoint another economist. He decided he didn't need an economist. I ended up as the only economist in both missions, with the exception of one senior foreign service officer who had a certain amount of economics training.

So I had a great deal of scope. Of course, at the time, being in Treasury gave me a certain freedom of action because I wasn't quite in the State Department hierarchy. I was only a GS-12 the first year, an FSO-5 equivalent then. So I would have been nobody had I been in the foreign service.

Q: Well, equivalent to a captain in the Army.

GORDON: I think so but being there I'm not sure-maybe only the ambassador knew what my real rank was. And people thought I was older than I was because I was a little heavy. I have always been a little bit heavy. They thought I was 37 to 38 instead of being 31 to 32. I had a lot of responsibility and then various issues would pop up-the Korean government would do things that would really irritate the hell out of the ambassador. And he would say, "Why are they doing this? What possible rationale can they have?" And he would turn to me among others. Because I gave him answers and because I had access, after a while, he put me on his central committee-his country team. Although at the counselor level for

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consultation purposes, I remained part of the economic section nominally reported to the economic counselor. Treasury did supply a secretary.

Q: I would think, too, the way you were sort of given this assignment was sort of okay, we'll give it to you if it will make you happy. But it would also give you a certain amount of freedom as far as Treasury is concerned because they weren't saying, "You go out and do this and that for us."

GORDON: No. I had total freedom as far as Treasury was concerned. My contacts with Treasury were very limited. And in fact, I was really part of the apparatus out there and I could have been in the State Department for all intents and purposes. In fact, Berger, tried to recruit me for the foreign service. But I resisted because I felt that I would go in at a lower grade and promotion was slow enough as it was at that point.

Berger and Killen admired the energy and the dedication with which the new regime attacked development problems and wanted to show them some flexibility. They also did want to attribute the budgetary counterpart of aid to the military budget but to the budget as a whole so as to be connected to the broader issues of growth.

The unused aid pipeline of obligated but undisbursed funds was long because political turbulence of the previous year had reduced the demand for imports. Exchange reserves were also at an all time high. The Koreans were pressing for more aid to accelerate development but Washington, annoyed by Korean refusal to hold elections, and anxious to switch funds to economic growth in Latin America and South Asia, decided to reduce the main grant component from \$160,000,000 to \$90,000,000 for fiscal year 1962 with the argument that the pipeline would ease the transition.

Then the Koreans started to inflate their economy and came with a bizarre economic policy measure that they thought would offset the impact on prices. It was a currency exchange. They had secretly arranged for a new issue to be printed in England for three million dollars, about half the cost of a new cement plant. They announces it without any

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prior notice to us. I took the position that this was a stupid, costly and ineffective measure based on a mistaken analogy with the policies taken in Europe at the end WWII to soak up wartime liquidity. The Ambassador accepted that point and argued it strongly with the authorities. His faith in the rationality and coherence of Korean economic policy was shaken.

Inflation increased growth and imports. Together with the habit of paying for capital projects with cash or export credits instead of grants or highly concessional loans that we thought appropriate, it led to a run down of exchange reserves. I was alerted to the problem by a section chief in the Ministry of Finance who started making projections of payments falling due. So as 1962 moved along we started facing the double crisis caused by the duel over elections and unrealistic plans to accelerate growth.

But the key issue that made my stay there was pushing through the devaluation. The same issues I had described in the case of Vietnam were present here: an over-valued exchange rate, tied to a budgetary support commitment, had become the main determinant of the dollar volume of assistance. The previous government had devalued to a realistic rate but with Pak's inflation it had become over-valued. For the Koreans, the issue was the quantity of U.S. aid.

Therefore, they never wanted a general devaluation because that would give the U.S. the excuse to reduce its aid. They wanted an realistic rate to value American and for the exchange of dollars for U.S. military expenses in the country and a depreciated rate to promote exports. From 1953 to 1961, we had spent years negotiating that problem only finally to be successful with the republic that came out of the democratic student revolution of 1960.

Q: I have interviewed Marshall Greene who was the charge at the outset and his stand and problems...also problems with Berger.

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GORDON: By taking the step of reducing aid, Washington changed the rules of the game. Basically, Kennedy (I believe the decision went to the White House) was saying "Look, I want to promote democracy in the world and I want to promote democracy in Latin America. If I can't promote democracy in Korea where I allegedly command the army, provide most of the foreign exchange and my man is basically Number Two in the country, where can I promote democracy in the world?"

Desperate to increase the supply of foreign exchange, the Koreans started to link import licenses to exports, i.e., you either had to export in order to import or buy the rights from someone that had. This led to a crazy pattern of exchange rates and all sorts of scams to take advantage of the system. My contribution was to monitor what was going on and towards the end of 1963 to try and persuade the Ambassador by saying, "Look, this is what they are doing. It is pointing in the right direction but it is a horrible mis-allocation of resources." We have to get this thing back on track and have a uniform, realistic exchange rate again. He accepted the analysis in the fall of 1963 and recommended that it be the U.S. position.

After Washington's approval, we set up a working group which consisted of me, someone from the AID mission, an officer representing the U.S. forces and an academic economist. We met in Washington and worked on a report that took a month to produce to indicate the shape and value of our exchange rate target. We then negotiated the devaluation with the Koreans. I led the technical committee and the Ambassador and AID mission director the high level contacts. Just a few people knew about it. I did all the reporting. The night before the operation we had people in the economic section getting ready to do the reporting. Phil Habib came into the room and said, "Well, I'm glad to see you're handling a crisis for a change and not me!" Q: What was your impression when you arrived in Korea, of the Korean economy?

GORDON: Oh, it was terribly depressed. It was a shock to me because the only foreign country I had known was France. And even the poor part of France in Vendee where I had

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been stationed in the Army was immensely wealthier than Korea. I had never been outside of Western civilization. The French weren't that foreign to me. I spoke the language and we had many relationships. So here I was in a country that was very different-a different civilization, a different race, a different economy.

I never thought much about race. I never felt uncomfortable because I was the only white person on the street. No one ever treated me that way so I didn't worry about that. But it was strange. And it was very, very, very poor. And people were barely getting anything to eat. The economy itself was still recovering from the war. There was still a severe electric shortage because, originally, the generation plants had been in North Korea and they had cut the transmission lines in 1948. They were only just developing electric power generation in the south and there was still rationing. Korea had the reputation for being a "basket case" because two thirds of its imports were being financed by the United States. It was a curious self-fulfilling prophesy in a way because you have to ask yourself, if two thirds weren't being financed by the U.S. there wouldn't be any deficit by definition. You can't have a deficit without either spending your reserves or having someone else paying for it. This basket case hypothesis was a sort of gospel for the AID people. As an economist, and as a Treasury man who believed that incentives expressed in prices can modify any behavior, I would say "Sure that is the case now but you can't assume that the Koreans will never be able to export" because they are not given any incentive to export. Why should they export? The exchange rate is so over-valued it doesn't make any economic sense to sell things abroad. You can make more money selling at home. So why would you export into a market you don't understand.

Once they had the incentive...they set up the incentive themselves - they had all these exchange rates and various other devices to promote exports. Exports responded quite nicely-very quickly when they were given an economic incentive. So I was arguing, "Economic man is not different in Korea than in the United States or France or someplace else; you give him incentives, he will respond." Yet that was a view that was very much a

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minority view in the whole U.S. mission at the time, including the people in the economic section.

The AID mission people consisted of mostly people that were good at particular projects but didn't know much about the economy as a whole. They were quite skilled. But when it came to understanding how that project fit into the economy as a whole, they really didn't understand. That was the function of an economist and they didn't have one. But you could already see progress taking place even in those few years.

Q: Did you have the impression that Park Chung Yee was beginning his tutorial course in economics? Could you describe what you saw of his behavior; I heard that he was a general but really immersed himself in economics.

GORDON: I think there are two points. One is that Park comes from the generation that was...what is the word...Japanophiled. In fact, he graduated from the Japanese Military Academy and, like all the educated Koreans at that time, spoke Japanese fluently. The second is that he, like other Koreans that I ran into, had the following view of the Japanese: "The Japanese, a hundred years ago were a poor country like us, look what they have done since." The Japanese and we were at the same cultural level as far as the Koreans were concerned. If the Japanese were capable of assimilating Western ideas and doing this and we, the Koreans, are as smart and as evolved culturally as they are, then we can do it, too."

When Park first came in, he had an objective: to make Korea strong and independent and he had the same drive that the Japanese had when faced with Perry and other foreigners; we don't want our country to go down before Westerners. It wasn't that he was anti-American per se (our reaction to his coup certainly did not endear us to him) but he felt that he was too dependent and he was right of course. Korea was too dependent on the United States. He needed a strong economy if he was eventually going to make a strong Korea. But his first view, and that of the people who worked with him, was "Well, we don't

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worry about exports at the time; we'll promote some exports but the important point is develop our infrastructure and our productive capacity. So since we are such capable fellows and we are so interested and involved in economic development, you give us more money and we will show you that we can produce these plants faster than Syngman Rhee could."

Then of course we had the conflict. When the United States cut aid, as a consequence, they were faced with a very practical situation-where do we get the foreign exchange from? So looking at the Japanese (and he had already developed informal relationships with the Japanese), he said, "We have got to increase our exports; there is no other solution." So he invited any and every scheme to be put forward to him to increase exports. And like the general he was, he set up a command structure to develop and monitor export targets beginning in 1962. This became a guideline for the economic ministers. To show how serious he was, he chaired the quarterly review meetings himself. The ministers would have to come in and say to him, "Well, our target was "X" and our performance was "Y" and if "Y" was under "X," why was it under "X" and why didn't you do a better job and do you need help and what are the factors and what can I do and so on.

I don't know how much Park understood economics but when he developed the subject, the objective of the exports, he was serious about it. He wasn't a man to make a speech...he rarely made speeches in fact...he wasn't a man to make a speech and say economic development is a good thing and exporting is a good thing and I hope that my government will take all of this very seriously. It was an objective. It was a quantifiable objective as far as he was concerned. Now of course sometimes the ministries cheated a little bit by getting in lots of advance orders and saying, "We have a letter of credit and so even if we didn't get the export out in time, we have all these other exports in waiting and will get it out."

And they had some crazy schemes where the net export, i.e., the value added in Korea was 5% or something of that sort. The joke was that they would import tin from Japan and

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galvanize it and reexport it. All they were adding was the galvanization in Korea which was maybe 5-10 percent of the value of the export. So you exported 10 million dollars but you imported nine million dollars to get the ten million dollars. It didn't go very far toward covering the balance of trade deficit.

That was I think, the point. Exporting was a serious business that had to be carried out thoroughly and intelligently. The economic planners soon realized that only exports could supply the foreign exchange necessary to support a high rate of economic growth. Even after the U.S. and the ROK came to an agreement after the 1963 presidential elections, our aid never returned to its former level. Although Korea received more aid from Japan and other sources later, most of it was in the form of loans that had to be paid back.

It was this serious focus on exports that is the key point of the entire Korean economic development policy because when you focus on exports it limits sharply what you can do. I mean you can't fool around and have all kinds of protective schemes and subsidies if they are going to make you less competitive. After awhile and then with the example with Japan as an export-led economy, he was basically saying, "This is the way we have to go and we have no choice in the matter at this point. We have no alternative as long as the United States is going to take this view."

Finally, you know, Park did come to an agreement with the United States. He did have an election, he did win that election by not a lot. I remember that very vividly because they had billboards downtown showing the vote over several days. And the first day Park was behind because the vote was coming in from the Seoul area and Park was very unpopular there. Of course, he had less ability to manipulate in Seoul I think. Outside he was more popular because the peasants I think liked him and to a degree he probably manipulated more. But it was a close election, a real election. He may not have won but it was sort of like Nixon-Kennedy, close enough to argue about.

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The other side of Park's objective of reducing dependence on the United States was to reopen contacts with Japan. Syngman Rhee had a ferocious dislike for the Japanese. Under no circumstances would he have anything to do with them except for limited trading. Ironically, the younger generation that had had no experience of the Japanese disliked them more than their elders, whose animosity was mixed cultural influence. Negotiations toward the reestablishment of diplomatic relationships and to determine the amount of reparations and future development aid were secret. But leaks took place and the subject became another stick for the opposition with which to beat the government. After the negotiations became official they led to a major riot by Korean students, accusing the government of selling out to Japan.

The Japanese had been prepared to reestablish relationships for some time. U.S. policy had been to quietly to promote this relationship as well. Already in 1962, all the big Japanese trading companies were sending representatives based on the unspoken political relation between the two and for the sake of future business. One of the reasons that Korean exports took off was that they were being marketed by Japanese traders. They were allowed to do business informally without registering or paying Korean taxes, at least officially.

Mitsubishi or whoever would come over and run around to various Korean companies looking for things to sell. At that early stage there was silk brocade, some agricultural products that had been exported in the past and the beginnings of the cotton textile trade. Since the companies had marketing facilities world wide they did not necessarily send their purchases to Japan. In fact more went to the United States.

By mid-1963 Korea was doing pretty well with this marketing aid. The pattern, except for Japan, in East Asia had begun with Hong Kong after the Korean War. The procedure was to manufacture something cheaply and get someone else to market it for you. It was either a Japanese trading company or an American department store or a European company that did the actual selling. A representative would come and say "We need cloth of a

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certain specification and a certain size. We agree on the price. Here is a letter of credit. If you could deliver to me 1,000 dozens of this type of thing, you've got an order. We will take care of you. All you have to do is produce it and send it to us and we will pay you." In some cases, they provided the specifications and technical assistance to start the production process.

This is still going on with China today. Only now the Hong Kong Chinese do it for the mainland Chinese. And of course the Koreans do it themselves now. But for a long time somebody else was doing it for them. All you had to have was skill in manufacturing something at a good price. And the Korean prices were very good-very cheap and they kept that edge.

Q: Were we trying to get American firms to come in and do the samthing?

GORDON: Yes, we would try. And sometimes there were American department store buyers that were circulating in East Asia that were accustomed to dealing with Hong Kong for example at that time, who were beginning to look at Taiwan. A few would come out to Korea. But they would often come to us and say, "They can't produce the quantity we need. We don't buy a couple of dozen shirts-we buy 100,000 shirts if we are going to buy the shirts here because we have a big network to supply." Wal-Mart didn't exist but Sears and people like that did. The Korean factories were too unsophisticated. They didn't know how to produce in quantities like that. So it took awhile.

The Japanese of course were more flexible and anyway they had a political motivation and a longer term business outlook. The Americans were simply looking for a good deal. If it wasn't a good deal-goodbye. They also objected to having to put in firm orders, letters of credit and that kind of thing. They wanted to make it more flexible have a little more freedom to protect themselves against commercial problems.

Practically at the outset, we had a commercial policy problem with Korea. The United States had established a cotton textiles quota system in 1961. The second round was

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1962. The Koreans were just beginning to export one type of coarse cotton cloth. The Department of Commerce, anxious to nip in the bud a new competitor of American industry, set the quota very low, two million dollars or something like that. The ambassador was distraught. He said, "Here they are just beginning and the American market is cut off to them. This is ridiculous."

Harriman was Assistant Secretary for East Asia at that time. Harriman, who had been a cabinet officer, didn't mind being assistant secretary if he had a useful job to perform. Berger knew Harriman very well. Harriman had been one of his mentors in the past.

Q: Berger had been Labor attach# in London when Harriman was ovethere.

GORDON: That is right. He knew him very well and so he wrote him a direct message saying you've got to do something about this or you are really going to hurt Korea. Harriman went to bat and he got it increased. I think we found out later that Harriman said to Sa "All the time I was fighting for this quota, I didn't realize it was only two million dollars!" (laughs) I think he was just told to increase the size of the quota or don't put a ceiling on it right away or something of that sort. So he went to bat because who even thought in those terms? Total Korean exports were forty million dollars in 1961 and eighty-five million in 1962. When I left in 1964, I think it was 150 million. It was a big increase in percentage terms but even by the standards of that time it was tiny. Hong Kong was exporting billions already.

Q: Did you have any feel for the effect on the economy, and from your point of view, of Park Chung Hee's dealing with farmers in Korea? Because...I am told this is one of the keys to Korean success.

GORDON: Park's objectives were mainly political and quite traditional. Their success probably enhanced political stability but only at an economic price. Most of the population was still in the villages in 1961. He saw that his political base was in the countryside. One of the things he did at the outset was to cancel all these money lender debts that the

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peasants had which were important. That gave him a favorable rating. They had other credit-regular agricultural credit system that the Japanese had set up. They were relatively well organized as a result of the Japanese in the countryside.

But he was very anxious to make sure that the farmers got their allocation of fertilizer. That was a big objective of his development program the first couple of years. He wanted to build fertilizer factories in Korea because all fertilizer was imported at that time. Personally, my only contact with farmers came because Berger wanted everyone to go on a field trip. I had to think of a reason to go out on a field trip because all my stuff was really in Seoul dealing with central agencies. This debt cancellation gave me an excuse so I took a look around the countryside with a couple of Koreans and we talked to the farmers about the credit issues.

The farmers were generally a little bit skeptical. Park was not that popular in the spring of 1962. For one thing, soldiers had a bad reputation in Korea. There was no military tradition like the samurai. The very fact that he was a professional soldier was a mark against him. You had to gain confidence or you weren't accepted. I don't think they cared too much about the coup. I'm not sure there were too many democrats out there but it was the kind of person he was that was more important. I don't know whether his relationships with the Japanese was a factor or not.

Another thing he did which in effect hurt the farmers a little bit at the outset was that he was very strong on forestation. Home heating every where was based on wood. But for the peasants, the hillsides were pretty much free territory to cut down trees for fire wood that was a source of income for people that lived anywhere near a city that they could supply. But Park was determined that Korea would be reforested. He sent out people planting millions of trees. To reduce the demand for wood in the cities, he established factories and subsidized the price of coal briquettes which were made from compressed coal dust. Korea does have some low grade coal.

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Q: *The ondol?*

GORDON: Well, the ondol is just a system for delivering the heat. But instead of using wood in the stove outside you use a charcoal briquette which has holes in it which facilitate the circulation of air. You put one of those in and you light it and it lasts for a night or something like that. So that was an alternative source. And then he forbade people to bring wood from the outside as soon as this system got developed. Now that factor probably hurt some farmers because that was a source of marginal income I'm sure for many peasants-bringing in wood. He really couldn't stop people from taking wood off the hillsides for their own purpose. But the city thing was very successful.

And of course, as I say, he was very anxious to make sure the price of rice was high to the farmer but he subsidized the price of rice to consumers and fertilizer and seeds to the farmer.

Q: I am told that by keeping the price of rice high, this was something that was running against the tide that most people who were in control of the economy usually stick it to the farmers to make-the equivalent to bread cheap in the cities. You stick it to the farmers. But he didn't do it.

GORDON: He did not do it because the politics favored the countryside rather than the cities as is the case in many developing countries. But subsidizing was an expensive policy which partly paid for by the import of cheap foreign grain, usually under PL480. It also put the budget under pressure and indirectly caused inflation.

Q: When you were there, was there a either grudging or more than grudging respect developing for Park or did you find or did that come later?

GORDON: I think it came later. Actually the American ambassador was more popular than Park Chung Hee throughout the entire time I was there. And I think in a sense people trusted him more than they trusted their own president. There was an arbitrary quality

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about Park particularly at the outset, I think, that scared Koreans. And they didn't know how to deal with it and felt they had no defense; that the only defense they had was the United States. There was an attitude that the American ambassador was something of a counter-balance for Park if he does something nasty to us. This view was strongest in the political opposition which had been fairly strong.

You know there had been a democratic election. They had been in power for a year between the student revolution in the spring of 1960 and the coup in May 1961. They looked to the United States that had promoted democratic institutions as their defender. That led to a certain degree of tension between the government on the one hand and the United States and the opposition on the other until the issue of elections was resolved. But it was only resolved about middle of 1963 and there was still tense feelings on both sides even after that.

Park really only became popular about three or four years later when he was reelected. The fruits of economic development really weren't that obvious at that point. But in 1967, 1968, 1969 Korea was really developing rapidly. The main problem was under-employment. But as more and more people got drawn into the economy and were getting decent wages for the first time in their lives, that created a good feeling. And that happened later. But of course by that stage, relationships with Japan had become formalized and they were getting Japanese aid. Korea became part of the LDC network. The World Bank was there. The Fund was there.

In effect I arranged for the IMF to have a more active role because I did not trust the Embassy or AID to do the job after the devaluation. The Korean economic authorities didn't know what the relationship should be. I wrote the letter that the Koreans sent to the IMF about what they were going to do. (A couple of years later officials from the IMF commented that there was a large gap between what was promised and what took place.) I urged them to make an approach to the Fund. Then the minister sent for me and said "You really ought to write this letter. You know how to write this letter better than we do."

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We will look at it and send it.” They pretty much accepted my version. I recommended that an IMF man be stationed there because I was anxious that a continuing financial relationship the IMF be maintained-that the kind of policies that the Treasury would sponsor had another sponsor as well, a more permanent long term sponsor in the IMF. And we got a man out there that did that.

The devaluation itself-there were great apprehensions-it went off beautifully. And so in a sense I got a certain amount of prestige from that because I was the optimist that said, it will go off well. And others-Phil Habib being on the political side saying, “Suppose we have a big increase in prices? What are we going to do about that?” He was the most skeptical and kept hammering about those aspects. Phil had a certain amount of economics background. He had studied agricultural economics and had been an economic officer. I met Phil originally in Washington before I went to Paris the first time. He was in charge of developing what they used to call the Sino-Soviet aid tables to developing countries. Phil was charged with collating reports and developing a system to follow it. This was one of his early jobs.

I remember being called over and told by one of my bosses in the Treasury that “We have to contribute to this. Go and see Phil in the State Department.” It was the annex. I didn't realize then that Phil had grown up a few miles from where I did in Brooklyn as a matter of fact. We became very good friends in Korea and remained friends until the end of his life.

Q: What were your impressions of the people you were working with in the Korean government?

GORDON: Well, at the outset...before the election and before the consolidation of the government, they had a Supreme Council for National Reconstruction. In effect the military junta was the governing body. They were over the cabinet which was not really the policy making body for certain kinds of things as it should have been in a normal government. The council would have people seconded from the different ministries as well as other

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personnel. The currency exchange was a council idea. It originated with a university professor who was an advisor to the Council. They had been spending money rather freely after the stabilization of the previous government-prices were beginning to rise. This man came and said, "Well, we can get rid of all this money-inflationary problem if we have a currency exchange." He had been reading about the sort of thing that happened in Europe after the war when a great deal of currency had been in circulation as a result of wartime economics and various countries of which the German one that you may have read about was the most prominent, they simply went in and changed it one to ten and took away everybody's liquid assets and then freed prices.

But he misread the German example and proposed a one-to-one exchange. I went to him and said, "Well, what are you achieving if you are giving people back the same value of money as you are getting in. They have a different unit but the numbers don't change. Their liquid wealth is the same as it was before." In the meantime you spend three or four million dollars-which is a lot of money for the Koreans to have this printed and shipped to them. They didn't know what they were doing half of the time. They would trot out every old Japanese project plan that they could on the assumption that what might have made sense in 1935 was still valid in 1962. But there were some very able people in the ministries and as they gained experience and responsibility, their performance improved rapidly.

Q: Well, what about the U.S. military services there? Did they play any role, from your perspective, in the economy at all?

GORDON: They played a role in the sense that the spending by the U.S. forces was at one time was second only to U.S. aid in terms of the amount of exchange that was involved. They hired a great many Koreans and they bought some food items on the Korean market. Mainly it was labor. And of course, soldiers spent some money on their off-duty hours there in Korea. In addition, they had a valuable indirect effect on the Korean economy by training the Korean military in organizational and technical skills. The Korean

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auxiliary construction battalions which started out building military facilities locally became the nucleus of the Korean construction companies that had such success overseas.

I mean, in round terms maybe the U.S. aid program before the reduction was maybe 150-200 million. U.S. spending was maybe fifty million or something like that so it was rather important. In fact, it exceeded exports until this export drive started. That was another reason they didn't want to change the exchange rate. Because they were getting a very favorable return for what they were selling the U.S. military. They would have gotten fewer U.S. dollars if the exchange rate hadn't been over-valued.

Syngman Rhee policy on the exchange rate was perfectly rational in the short term. He said, "I want to maximize the number of dollars by maximizing U.S. aid, which was based on a military budget requirement, and maximize the dollar value of sales to the U.S. military where they have no alternative source of supply." And you did that by having an over-valued exchange rate. That may effect our overseas sales but we don't have many anyway, so who cares? Or, we will give subsidies to a few products we think we can sell overseas. And from that point of view, they were right. And that led to the view that Korea was a basket case because the foreign incentive system was so devised as to impede exports.

Q: It was designed...

GORDON: ...to maximize U.S. aid and spending, not to maximize exports. And that wasn't clear to a lot of people. But then of course, the aid shift took place as a result of a political decision. I have often thought that the best thing the United States could have done for Korea's economic development was that decision. It really shook them into re- thinking everything. The same thing happened in Taiwan when Kennedy decided he was going to recognize Communist China in three or four years, and wanted to give Taiwan a decent transition period. We went to them and said that we are going to phase out aid in three or four years and you ought to get yourself ready and we will help you as much as we can.

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A whole raft of experts went over and discussed how they could open up their economy and so on. Well, they did it in three or four years. And we did phase out aid in three or four years. Of course, they had a much higher savings rate. But the Koreans needed more help than Taiwan did to carry out this kind of policy.

Q: Did you see the growth or genesis of some of the now giants of Korean industry- Hyundai and others? Were these around? Was your feeling that, you know, you've got some real entrepreneurs who are going to get out here and start doing something?

GORDON: There were a number of larger firms that had built on Japanese firms that had been confiscated in 1945 but really hadn't developed until after the Korean War. Sam Sung, I think he was the biggest at that time. It was based on the Mitsubishi's old Korean branch and its symbol, three stars, is a take-off of Mitsubishi's three balls logo. But he made his money...I wouldn't say he was a great entrepreneur...he made his money basically by having access to foreign exchange when the exchange rate was overvalued. (That was another reason the government liked overvalued exchange rates.) And therefore being able to import goods and sell them at a very high profit within the Korean economy. There was a boom, for example, arising out of a rice shortage in the late 'fifties. There was a huge import of wheat flour to make noodles and several companies built flour mills to have the right to import the wheat. The wheat was imported at this exaggerated dollar price which made them a great deal of money. We had a lot of idle flour mill capacity for a long time afterwards.

So this whole bunch of people were known and not liked in the Korean economy. In fact, Park was almost ready to line them up against the wall and shoot them when he came in because he had this sort of soldiers' view that, you know, "commerce is bad." It was only actually American influence at that point that saved them. He only realized later that he needed them for exporting and then he became favorable to them. And that was the genesis of the Chaebol system of favoring various companies with subsidies and subsidized credit and access in return for fulfilling export goals.

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Korea, faced with the cut in U.S. aid and needing more foreign exchange while ruling out a general devaluation decided give import licenses to those who agreed to use their excess profits to subsidize exports. Because the Korean economy was highly protected and the exchange rate overvalued, licenses were a valuable commodity. The Korean government was saying: "You need foreign exchange to run your company for domestic as well as foreign sales; okay fine, we will give you some. In return you have to give us a quota of exports. In effect you have to pay for that foreign exchange by exporting and getting some more foreign exchange because we don't have the sources to keep giving you foreign exchange unless you do that."

And so they developed relationships with all these big companies. Well, they were little companies at that time. No one ever heard of them. They weren't very sophisticated. Hyundai didn't even exist then. It only came up later. There were four or five of which I recall Samsung and Lucky Goldstar at that time was making transistor radios. I remember we used to talk to an executive from Lucky Goldstar who was one of the more modern types, he was a little bit younger and had some American education. And some of these people you know, had never been outside of Korea but their business training was entirely Japanese. They spoke Japanese as well and their contacts were in Japan. They knew nothing about the United States.

Q: What about corruption?

GORDON: Oh, there was a lot. There was a lot of corruption but the point is it was...it didn't have the effect of pushing people into unproductive activities-basically like this activity-exporting. What they were saying to Samsung was we give you the exchange and you export but, by the way, you will pay us a certain amount for our political activities and enrich the president and a few other senior people as well.

But it wasn't corruption in the sense that you could go to the government and get a project which the government didn't want because you paid somebody off. The President was in

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control of the situation. He was a tough guy. No one would dare do that unless they had his approval for that kind of thing because he just as soon take you out and shoot you if you did something like that. Or put you in prison for years and years. So in effect there was corruption but it was a controlled corruption system. So the corruption didn't lead, not seriously, to activities which diverted resources. The corruption was part of the system the same way it has always been part of the system in Korea. As it already came through the people who get the favors pay for them. But they are getting the favors because they are performing. You had to perform to get favors. And when you got the favors you also paid a price for them.

Q: What about the threat from North Korea? Did that have aninhibiting effect on things that we were trying to do?

GORDON: It was a constant. I don't think, I don't recall any specific incidents at that time that had an effect on the economy one way or the other. Basically it was just a constant menace. People heard about it but if anything it was a stimulus to Park and his government because at that time North Korea had a reputation which was probably true of being much better developed economically than the south since it had inherited the heavy industry assets. Politically as well as eventually, militarily, South Korea felt it had a stake in strengthening its economy if it could show the southerners that it was as good as North Korea at developing economically. That would be another feather in its hat to maintain the country free of North Korean influence. But nothing particularly happened during that time. It was just there and you had to worry about it.

Q: And so a final thing on the Korean side, how did your wife anchild all find life there?

GORDON: Well, after a bit my wife got accustomed to it. She is pretty adaptable and she got to like it. We used to take a lot of trips. There was a thing called the Royal Asiatic Society which was run by an American and we'd take trains. We'd get a railroad car of our own and we'd go off to a temple or a place or a beach or something of that kind. We went

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to the beach a couple of times. There was a missionary operation that rented houses down there. So we were out in the countryside to visit and to enjoy ourselves. It was somewhat limited in the sense that there weren't that many things to do except these excursions. There wasn't much to do in Seoul. There were a few concerts. Of course we had a lot of servants at that time. They were cheap. We had two small children so it was very helpful to my wife to have these people to help her when we had babies in the house. My daughter was only four and my son was less than two when we left. He was born there in Korea in the American military hospital.

One other point I would mention just to go back was the relationship with the Japanese. It was at that time in early 1964 that Park sort of openly declared that he was going to reestablish relationships with the Japanese. This was preceded by long periods of quiet negotiations as I say, the hotel were full of Japanese representatives. And one time just as an aside, people of ministry of finance said that they wanted to tax some American businessmen who were operating there. I said, "Well, that is fine. You have a right to apply that tax but I think everybody should get equal treatment. What about all the Japanese representative trading companies who are sitting in the Hotel Bando which was across the street from me. What about them? They are not registered here. The Americans are registered as businessmen. You haven't registered these people because you don't want to." So they were operating tax free for the moment because they don't have a business license. So that cut that off immediately. He wasn't about to touch the Japanese at this stage. But that is what was going on.

So then this came out and that became a political crisis and there was a major riot in Seoul by students and others protesting against any relationship with the Japanese. I mean this whole generation of young people had grown up and been taught to hate the Japanese. They didn't know them and couldn't speak a word of Japanese unlike their elders.

I witnessed the riot in front of the AID mission which was on central avenue leading to the main government building. I was standing out close to the fence when the security

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guy came out and they think you'd better get back in the building. Just after he said that a group of students came from the back of the AID building and over ran our courtyard to get into the main street. They weren't involving us. The embassy resident compound was a quarter of a mile away from the same building and there was the smell of tear gas all night in the air. The riot police shot off so much tear gas.

As a result of this event, the ambassador raised the issue of whether we should postpone the devaluation because of the political situation. I got very excited and said, "No, you can't do that." We had organized this thing and we had everything ready to go. This happened about March or April and I think it was in May that we had the devaluation. Finally he said "I guess you are right. We are going to go ahead."

Q: All right, well, next time we will pick this up in 1964. For Korea you went where?

GORDON: I went back to Washington for a year and a half and then went down to Argentina.

Q: All right. We will pick it up then. Today is the 24th of February 1997. What was your job when you went back to Washington in 1964?

GORDON: In 1964, I went back into pretty much the same division I had left, which was East and South East Asia. It was now part of an office for the developing countries. I think we had reorganized it that way. And this was about seven or eight people-I was about number 3 man in this group. And I forget exactly the countries I was working on at the time but they were mostly East Asian countries.

I guess the biggest single job that I did during this period was participate in the foundation of the Asian Development Bank.

Q: Tell me, what was the Asian Development Bank and had there been anything like it before and where did it come from?

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GORDON: Of course, we had development banks. The World Bank is the prototype. And then in 1959 as part of the response to Castro, they established the Interamerican Development Bank [IDB] in Washington which was more of the prototype of the regional bank. That was the first regional development bank where you had the United States and the developing country members of the region. Later, Canada joined as did Japan and the usual European countries.

The Asian Development Bank was another example of the same model as the IDB. The idea was not American, but was Japanese. It was proposed about, I would say, in late 1964 in ECAFE, the UN Economic Commission for Asia and the Far East, now called the U.N. Economic Commission for Asia and the Pacific (ESCAP). The Japanese had put this on the agenda for a meeting in New Zealand that took place in 1965. Now at that time, Treasury was against it. They didn't like proliferation of regional banks. And we rarely attended these meetings. But I was sent to this meeting to make sure the State Department didn't agree to anything on this subject. And I believe the man who headed the State Department delegation, was Walter Kotchnig. He had worked on U.N. affairs in the State Department. He was very much in favor of it and a number of other countries were in favor of it.

At any rate, I went through the dance. Like all U.N. meetings they were two weeks long and we probably had about three days worth of work to do. The result was that nothing took place. I took a couple of weeks off and went back on holiday the other way through Europe. By the time I got back I found out that President Johnson had decided that this was a great idea because it was a peaceful initiative in the context of the expansion of the Vietnam War and that we should be very much in favor of it. So everything was reversed. And of course since Treasury was responsible for development banks, it was given its orders to go ahead and start developing a position.

So here we were in about May of 1965. And basically I was the newly founded Asian Development desk man expert for Treasury on this subject. And I worked with Sam Cross

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who was later the U.S. director of the IMF. He had a fairly distinguished career in the Treasury and Federal Reserve Bank in New York. The interesting part of the problem with regional banks was always this: You've got borrowers who are developing countries who don't have much stake in the capital but obviously want to expand the operation as much as possible to get maximum resources. And then you have the developed countries who are providing the resources who want to keep some control over them. In the case of IDB we were in the minority but we held certain veto rights.

In the case of the Asian Bank we worked out a different type of formula. Since the Japanese were involved we were not terribly enthusiastic. We did not have the same dominating position that we had in the IDB. In fact, we worked up a position where the developed countries would have a majority of the votes in the Board and the developing countries a minority. The developed countries would provide the resources. The developing countries would borrow them but at least there was some control over how they used them. But it was made more palatable to developing countries because regional countries also had a majority. This happy result was derived from the presence of Japan, Australia and New Zealand. We killed two birds with one stone. We had the regional countries in the majority but, at the same time, we had the developed country majority we needed to safeguard our resources.

And I think there was a meeting around...oh, I can't remember exactly, somewhere around October, 1965 the initial negotiation took place in Bangkok which was the headquarters of the ESCAP. I did not attend because I had been offered the post of Treasury attach# in Buenos Aires. This came up rather suddenly because the incumbent at that time who was home on home leave resigned to take a job with a bank in Argentina rather than go back in the embassy. So they asked me whether I cared to go, since they knew I was always willing to go overseas at the drop of a hat. I was rushed off to FSI [Foreign Service Institute] to study Spanish to get ready.

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Q: With this Asian bank, during this time, 1964-65 what did you see that it could do? Were there countries that were potential borrowers did they look like they might be suitable people to pay back their debts or not?

GORDON: Well, I think, let's face it, the Asian Bank, both in the minds of the Japanese (although I can't be absolutely sure), and certainly in the minds of the American government, as exemplified by the President, was a political gesture. And I think the Treasury position initially was probably well founded in the sense that there was really nothing much that the Asian Bank could do at that point that the World Bank couldn't do as well or better since the World Bank already had fairly well established programs for a number of countries in that area. The Asian Bank was really a kind of a competitor on a small scale with the World Bank.

And also when you look at the group of people who might borrow, there were relatively few countries there that could borrow hard funds - that is, funds based on bond floatation where the interest rate had to be almost commercial, not concessional, i.e., high subsidized because the resources were grant aid. Because you had to pay off bond holders which was the World Bank ordinary capital. There weren't many at that time.

Subsequently, the Asian Bank developed a fairly large clientele because these countries all developed quite well and were in a position to borrow. And in fact they had gone beyond development banks in several cases being in the sense that they could be totally dependent on private resources, investments, bond floatation and had no need for any special operation like Korea and Taiwan and of course, Hong Kong. Now there are still countries in that area that need or could use Asian Development Bank money. Indonesia subsequently became the single biggest client and then China for the Asian Bank and the Bank has expanded a great deal in recent years.

But initially there was no good economic reason to start the bank at that time. You could have postponed it another five years and it wouldn't have made any difference.

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Q: Did South Vietnam play any factor other than a political gesture on the part of the Johnson administration? Was it a member of the bank?

GORDON: It was a member of the bank. Oh, yes. It was an initial member of the bank. All the countries of South East Asia. Any country that was a member of ESCAP could become a member. Most European countries are members. That was the way the framework was set up. That was the limitation of membership.

Q: When you went to Argentina, you were there from when-1965?

GORDON: Well, you might say 1966. We arrived at the end of 1965. I was basically in the States about 18 months and then I was in Argentina in the beginning of 1966 until mid-1968 at which time I went to Vietnam.

Q: What was the political situation in Argentina?

GORDON: Well, you had this continuing struggle with the remnants of the Peronista regime. Peron had been overthrown in 1955. And then there had been elections and each time the election threatened to throw up another Peronista government, because they were still the largest single party if not the majority, the military intervened. At the beginning of 1966, the Radicals, who were the oldest and other large democratic party in Argentina were in charge.

But the military was becoming more and more restive. There was a coup in June 1966 in which the military took over. And this was the beginning a long period of military rule which didn't end until the Falkland Islands debacle for Argentina and the return to democracy in 1983 except for a brief Peronist interlude during 1972-75.

At any rate, when they first came in the Radical government was fairly difficult to deal with. Our official policy was to try to help them. They were having balance of payments problems. They had a couple of debt rescheduling in the Paris Club. That was one of

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our big issues as far as Treasury was concerned and as far as my particular job in the embassy was concerned. Then after the coup took place there was a period of indecision and confusion for a five months because the Minister of the Economy was incompetent and because the military were as hostile to capitalists and free market policies as some of the other elements of the Argentine political spectrum.

They weren't very keen on putting into office a fairly sort of straightforward conservative who would follow those kind of policies. At any rate, they weren't getting anywhere so at the end of the year, they changed the whole cabinet. I remember at the time because of the timing it was called "The massacre of the innocents" with the president, Onganía, playing Herod in this case. Krieger Vasena became the minister of economy. He was quite a strong figure and knew exactly what he wanted to do and completely shifted things around. At that point we played an important role in working with him.

There was a great deal of skepticism about working with Argentina in both the U.S. Treasury and the IMF because beginning with 1955 when Peron had been thrown out, there had been a number of stabilization programs. There had been a number of attempts by the United States, the IMF and the World Bank to help them. All of them had come apart very quickly so when the new one came along there was considerable skepticism, "Well, here is another one. How long is this one going to last" kind of thing.

So it made my job rather important in the embassy because we had a small aid mission. We did have an economist in the aid mission. We got along very well. In fact, he is still a very good friend of mine - Walter Stettner. He died recently. The relationship with the ministry of the economy was of course my connection. And this became one of the biggest single subjects for the ambassador at the time who was Ed Martin, a former Assistant Secretary of both Latin America and Economic Affairs. He was quite knowledgeable and followed this very closely. At any rate, the IMF worked out a stabilization program and a devaluation program-quite a steep devaluation as a matter of fact. It was very successful for about two years, certainly covering the rest of the time I was there. Working out the

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program and subsequently for, let's say three or four months reporting on the program, we had a lot to do.

I had one assistant in the office who was a foreign service officer who changed at the time, about six months into the job. Another one came in. Both gentlemen who I still know quite well Jim Ferrer who subsequently reached the rank of DCM in Brazil later in his career and Robert Warne, who is now Director of the Korean Institute for Economic Affairs in Washington.

Then, things kind of cooled off. I think I mentioned earlier it is only when there is are problems that Treasury work is really interesting because then you are called on to formulate positions which might lead to action. If there is no problem then you revert to what you might call reporting, which can be analytically interesting for awhile but a steady diet of it becomes a bit dull.

Another issue did develop towards the end of my stay, about the second half of 1967, early 1968. The Argentines having turned around their situation, had a great reflow of capital. Their reserves went from almost nothing to very substantial. The United States Treasury was sort of playing games in those days using various gimmicks to minimize the size of the balance of payments deficit. Without going into the details, which are uninteresting now, one of my jobs was to present these little gimmicks to them and get their acquiescence and gratitude for the work we had done; it didn't require any cost on their part basically but it required them to take certain actions.

But then the governor of the Central bank of Argentina, which was responsible for managing the reserves said, "Look, almost all of our reserves are in dollars now. Our gold reserve is very low. The price of gold is wavering in the world and what happens if the price of gold suddenly goes up? I will be criticized for not having safeguarded the value of the reserves because they are entirely in dollars. So I would like to buy some gold." That

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was taboo in the Treasury trying to conserve its gold resources at that time- this being 1968, three years before the U.S. went off gold.

I had to engage in a kind of friendly but tenacious negotiation with the governor to decide how much gold he could buy and how fast and so on, which was strictly speaking, an accommodation on their part. Any foreign central bank had the right to come into the Treasury and convert its dollars into any amount of gold it wanted to buy. But they realized this was a sensitive subject and they wanted to maintain good relationships with the United States. There was a certain amount of moderation on both sides. We finally arrived at a ridiculous figure of 25 million dollars, purchased over five months. Something that would be completely unnoticeable by anybody else except Argentina.

That took up some of my time. And as for the rest, I found Argentina a very pleasant country. My wife is of Hispanic background and had studied Spanish and went to the University there. The kids went to bilingual schools so we were deeply immersed in the place.

In the fall of 1967, I attended the IMF annual meeting which took place in Rio that year. At that point my former boss, Ralph Hirshtritt, and now the most senior career official in the office, mentioned to me that they were looking for someone to go to Vietnam. I think the State Department and even the White House had asked Treasury provide somebody from our division because other parts of the department had already. We had some people doing technical assistance-IRS and Customs. They wanted a financial type to go to Vietnam.

And in fact, the deputy ambassador in Vietnam at that time was Samuel Berger, who had been ambassador in Korea. He was probably the one that was pushing for it because he had liked my work and was generally favorable to Treasury -an exceptional opinion among American ambassadors. So at any rate, Hirshtritt finally got me to agree. At the time, this

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was late 1967, the situation was rather calm in Vietnam. We took a long home leave at the end of 1967 going through Latin America...

Q: Before we go here, I'd like to go back. Where were you and how did the coup take place? Did it effect you personally?

GORDON: It didn't effect me personally but I can give you an amusing story. The head of the CIA station happened to be a good friend of mine because he had been in Korea and we were neighbors and our children knew each other. As it turned out, we lived around the corner from each other-just by happenstance the house we found was around the corner. And I used to go to work with him in the morning and he would drive in. I would come home by myself because we had different hours. I would walk around to his house and we would get into his car and drive in. That morning after the coup...the coup took place at ten or eleven o'clock at night, I walked in. And he sort of looked at me and smiled and I said, "What are you smiling about...what is going on?" He said, "You don't know?" He said, "The government's been overthrown." Which illustrates it was so quiet and that there was really no resistance. The president who was considered incompetent but not dangerous in any way was sent home, not to prison!

The military simply took over. And there was complete acquiescence from the rest of the armed services. There was no shooting. Nothing of the kind. So it was totally quiet. The thing is the army had been threatening six months I had been there before that it was going to happen any day now. People would come in and say, "Did you know that there was going to be a coup soon?" American travelers in the country came in and asked me something and brought this up in conversation. Because the government had been so fragile; it wasn't doing anything. There was no question...they were on notice that their time was limited. So when it came it was sort of a foregone conclusion. There was acquiescence in the general population that it was a good thing at least initially. The only violence that took place was there was a demonstration at the university. It wasn't a violent demonstration. There was a meeting at the university and when the students came out

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the police or the soldiers, I can't remember which, formed a double line and made these students run the gauntlet and gave them a beating for holding this demonstration. And that was really the only physical thing that happened. This was a week or two after the coup actually took place. So it was on the whole, a very quiet thing.

And then of course with the success of the devaluation there was an increase in growth, and a general improvement in economic well being that the military government that first year and a half was relatively popular and didn't have any particular resistance. It ran into a problem. This was after I left in 1969 which there were some violent resistance in certain parts of the country which led eventually to the return of the Peronistas in the early 'seventies with Peron briefly before he died and his second wife took over but that was after I left.

Q: While you were in Argentina, did you understand, or get from the embassy why was it that the Argentines seemed to having trouble getting their act together, at least up to when you arrived?

GORDON: The governments were weak because of a continuing division in the country. There were three well established political parties: the Peronistas, who were the largest single group, the Radicals who had brought democracy to Argentina in the 'twenties and the Conservatives who were a much smaller force politically but represented the wealthy landowners who had ruled Argentina for most of its history. The three disliked each other intensely and could never come together to form a stable parliamentary system of government. As a result of which the military felt it had to intervene to do something. Peron had split the military in 1945 and held their support until 1955. Thereafter they were always enemies. They did not like, at the outset, to take direct responsibility for governing for any length of time. They would call for new elections and then retire. When they took over in 1966, they said they were going to stay indefinitely but they had no stomach for the violent resistance they encountered from 1969 on and invited Peron to return.

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This political instability led to inflation and balance of payments crises each time a civilian government was in power. And when each time a stabilization program was imposed on Argentina by the IMF and the United States as a condition for aid and debt rescheduling, it would have the effect of favoring the wealthy landowners and hurt the majority that lived in the cities. The reason was that Argentina is a food exporter and the key element of the program was a devaluation to make exports more competitive. When this raised the cost of living the Peronistas who controlled the labor unions insisted on wage increases and other measures which in effect upset the stabilization. It would collapse and have to be renegotiated. The Argentine debt at that time had to be renegotiated three times. In fact, the Paris Club started with Argentina.

Q: So you settled for Vietnam in what, late 1967?

GORDON: Middle of 1968.

Q: Middle of 1968? Well, this was after Tet then?

GORDON: That is what I was going to say. We went on long home leave-about the only long home leave I've ever had during my Treasury service because of the way things fell. We went through Latin America to the States and then decided to return by way of Puerto Rico (my wife's father came from there and neither one of us had ever been there) for a few weeks to escape the cold of Washington.

So up to this point, as I say, we were discussing Vietnam. The only question was that since families were not permitted, where my wife and children would live. We decided they would go to Taipei based on the advice of friends in the Foreign Service and CIA who had already served there. But that meant, for the first time, that we would be separated for long periods of time because I could only [visit] once a month. Vietnam itself didn't seem to pose any particular danger if you were sitting in the embassy in Saigon.

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But when we were in Puerto Rico, Tet took place, and I remember we were looking at a copy of "Life" magazine a few days later with these pictures of Saigon. My wife looked at me and said, "Are you crazy...you're going to go to a place like that?" And I said, "Frankly, it's too late now. I can't admit I'm a coward and not go. Maybe if this had happened before I would have said I'm not going. I can't very well change my mind now." She was rather disturbed by that and rightly so. And so was I disturbed because it was an element of risk I hadn't really counted on when I accepted the assignment. In the end, I could have refused to go, I wasn't obliged to go, there were other people.

But we went back to Argentina for a few months at that point. I didn't actually go until June. I missed all the Tet and the aftermath and the second rising in May. Saigon was still a little "hot" as they say when I got there in July and we did have a few rocketing and things like that. It remained a dangerous place but if you minded your business and avoided certain areas, it wasn't too serious.

The American organization in Vietnam was enormous. The combination of the embassy and the AID mission proper and CORDS [Civil Operations and Revolutionary Development Support], which dealt with the provinces probably had a couple of thousand American professionals to speak of in this place. It was larger than any embassy, AID mission anywhere in the world. The AID mission was so large that even the meetings of the heads of sections was about thirty five people or something of that. Of course, the military also had two large headquarters with which we dealt from time to time.

All the economic work was concentrated in AID. The embassy economic section was relatively small. And the foreign service officers assigned to it were put into AID. So we had one division. We had an economic counselor, who was at that point an AID man, Lloyd Jones. The people under him consisted of AID people, foreign service people, and there were some military who had economic backgrounds who were seconded as well. I was the only Treasury person in that group.

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I was given an office with three assistants to work on the financial/macroeconomic issues. I reported to the chief of the economic section, who in turn was supervised by the economic counselor who also controlled the aid programming function. That was the situation from the time I arrived until about October or November. Jones decided to make me chief of the economic section which meant I had all the economic personnel under me. There was the question of administration. I had had only one person, a secretary, under me up to that point in my government career. There I had something like 20 professionals and half a dozen secretaries, a few of which weren't even in Saigon. We had a couple of field offices that we were responsible for in the corps areas-in three of the four corps areas in which Vietnam was divided for military purposes. So this was quite a challenge to me. To organize work and motivate so many people was difficult for a man accustomed to working alone. Just the sheer burden of writing reports on them was something.

Q: Writing efficiency reports, yes!

GORDON: I never had to do that before because we didn't have efficiency reports in Treasury until the establishment of the SES [Senior Executive Service]. I remember at the end of tour there were something like twenty efficiency reports to do. I spent the last month writing efficiency reports. But again, it was an interesting period. And, of course, we were working I think with the same focus I had when I was working on Vietnam my first year in Treasury, and on Korea later. Usually the problem was that the exchange rate was overvalued and that was distorting everything.

We were trying to get a devaluation but we succeeded in getting a very complicated reduction in tariffs. There was a rather long and lengthy negotiation on that score. We were also concerned in a whole host of things because the United States was so deeply involved in Vietnamese economic affairs that we were really co-governing with the Vietnamese Economic Ministries-the Ministry of Finance and the Ministry of Economy. I can't remember specific issues but we handled anything that came along. We had almost as many professional people at a high level as some of these ministries had because they

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were really pretty thinly staffed when it came to professionals who could develop policies, not simply those who could shuffle the paper and carry out the operations. In fact we had so many people we had to limit visits so that our counterparts could not be spending too much time talking to us rather than doing their work.

Given my previous experience and analytical interests, I also spent considerable time improving the reporting system, converting it from a casual AID process where operational, not descriptive reports, to a regular enhanced embassy reporting schedule.

GORDON: This was the situation from late 1968 and then I left just before Christmas, 1969. It was a very interesting period. There was a great deal of work to do. It was very different than the normal embassy situation in the same sense that Korea was. We had policy issues that we constantly had to work on and to which we urgently had to propose solutions. I enjoyed it from that point of view a great deal. Personally it was rather difficult because as I say I had never been separated from my family for any length of time. We developed this routine of going home about five days every month, which is more than a lot of people did who had their families in the States. My children were young at the time. It was a strain on them and especially on my wife, who kept busy teaching at the American school in Taipei. She has afterwards told me a number of times that it was a test of the durability of our marriage through which we came successfully, but not easily.

Q: What about the currency there? As I recall the-what was it? The piaster was at a certain level and the real rate was three or four times that and was used by everybody except all those government groups?

GORDON: Well, the issue was, as in Korea in the early 'sixties, that by having an over-valued exchange rate and at the same time having the rationale for the import program basically the generation of local currency for budget support, you were providing a higher level of aid than the economy really needed. Also you are bringing in goods at a subsidized exchange rate you, in effect, were simply allowing whole rafts of people

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to make exorbitant profits on the imports because the true price of these goods locally reflected the much more depreciated black market exchange rate.

We couldn't solve the problem by an outright devaluation at the time for political reasons. Instead, by raising various tariffs and surcharges we created a complex multiple exchange rate to do this. It was not a very good solution from the either technical or economic point of view but it was perhaps better than they had before.

Subsequently, Chuck Cooper, who had been the economic counselor during my first three months there, and then returned after I left, came up with another idea. It was to create a special exchange rate for personal exchanges, high enough so that the black market disappeared. The effect would be to increase the government's foreign exchange resources. He had proposed this idea to me on a visit in mid-1969 and I had resisted it because I thought they already had too much foreign exchange and was intent on them getting less, not more. It was carried out in 1970.

Maybe that was my ideology in this matter but the South Vietnamese government, just like the South Vietnamese Army, wasn't a very effective honest organization. While we had good relationships with the people we knew and I like them personally and some of them, at least the ministers and the senior people were fairly competent, they really weren't in charge at the end. President Thieu and his group were in charge and they made the ultimate decisions. And those decisions required that the people who ran things got as much money as possible because they expected that they wouldn't be there forever. They wanted to save up a nest egg.

It was, as I say, an interesting job because we had so many responsibilities but ultimately frustrating because you knew what ever you did wouldn't last very long. The breakdown didn't take place for another four or five years. I was succeeded by two other people from Treasury which maintained the post until the very end, April 1975.

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Q: What about corruption? Did this play much of a role in what you were dealing with?

GORDON: It didn't touch us directly but we knew it was there. That was one of the motivations for raising the import price and getting some of this revenue directly into the budget, rather than allow it to simply dissipate in the form of random riches for whoever was getting the licenses to import these things.

Q: I recall one of the measures was to promote the importation of motorcycles and other things in order to generate more proceeds.

GORDON: Well, yes. That was the idea, the choice of commodities once the aid dollar amount was set, depended somewhat on the demand for particular products. Usually AID had a list of authorized goods that they could bring in under these programs. Obviously they wouldn't let them import Mercedes or something of that sort, with U.S. aid dollars. But there was a proposal to import motorcycles because those were readily saleable and you would get the proceeds into the budget very quickly once licenses were issued for them. Saigon filled up with these Honda motor bikes. Just from a personal point of view I can tell you that the curfew went off at six thirty in the morning and went on again at ten or eleven at night-I'm not sure.

At any rate I remember getting up in the morning and getting ready to go to work and at six thirty suddenly there would be a blast of sound outside because everybody had been dressed and sitting on their motorbikes in their houses waiting for six-thirty. And the streets were absolutely filled with these motor bikes. I think we had imported two to three hundred thousand of these things and the bulk of them were in the Saigon area. They were from the Vietnamese point of view a relatively cheap form of transport.

Q: ...talking about the Hondas...

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GORDON: They used very little gasoline. With that long seat you could get a wife and husband and a couple of kids on one of these things.

Q: I saw one time, a family of seven, husband, wife and I think, five kids on it at once.

GORDON: So you were there. But then I guess people criticized this after awhile, saying this could hardly be the most essential thing you can import in a war time economy and they finally cut it off. That increased the price and domestically anybody who had a Honda immediately had a windfall profit in terms of selling them or using them for any other purpose, or leasing them. That was an issue.

Q: What kind of guidance did Treasury provide?

GORDON: I received very little guidance directly from Treasury. I really worked basically with the embassy and AID missions. When I went to Washington I would spend a lot of time with AID because they were the ones involved with all the economic issues that I was involved in. I was considered part of their team out there.

So while Treasury had a point of view, no one sent me letter saying don't do this, that and the other thing. I was back two or three times during that year and a half in Washington which is fairly unusual for us. Treasury was essentially happy that I had become influential in the mission and trusted me to take the right positions.

Q: What was the atmosphere like in Saigon in 1968?

GORDON: Saigon itself, after Tet and after the May offensive, until October, was still a bit" warm." One incident I might mention concerns the visit of one of the assistant secretaries of Treasury in September. He wasn't my assistant secretary. He was in charge of among other things, the U.S. Mint. His ostensible reason was to see if he could get a contract for the U.S. Mint because Vietnam did not have a mint of its own and its coinage was manufactured abroad. The real reason I think was that Mr. Wallace, who had once

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worked for Senator Paul Douglas, with the 1968 election in two months and Vietnam the number one issue, wanted to be able to say that he had been there and talk about it. I can't remember if Douglas was running for election or what the reason was.

I set up a schedule for him, the most important event of which was a visit to the Central Bank which was in charge of coinage. I never knew whether this was a coincidence or whether someone knew he was there. We had a date at the Central Bank in the afternoon and we were a little bit late. I remember we were hurrying down the stairs to get into our car in the parking yard outside when we heard this explosion. We went outside and there were several Vietnamese lying dead in the parking yard.

The AID mission fronted on a wide street and one of what we used to call Saigon cowboys, a guy on a Honda had tossed a grenade into that place at a time when a number of Vietnamese employees were just leaving. They had just been standing, there talking getting ready for transportation, when this thing came out of nowhere. I sometimes think that if we had been two minutes earlier we would have been in our car at that point when that grenade went off. I don't know what would have happened to us. I have no idea and we never did find out whether it had anything to do with him or it was just happened to be random terrorism against AID.

But it was one of the rare incidents. We were generally not targeted by the terrorists. Very little terrorism actually took place inside Saigon proper.

Q: Did you get involved...Sam Berger had this idea and was tasked with trying to do something about Americans involved in the black market. Did you get involved with that at all?

GORDON: I don't think so. Another subject which I didn't mention which was the beginning of the US troop withdrawal in 1969. I think that was a big issue. Stabilization being the other. I was part of a group that was formed to look at the consequences of the U.S. Vietnamization, as it was called at the time. We had gotten this message... I guess it was

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about mid-1969 which of course was very hush- hush at the time that President Nixon had decided he was going to gradually withdraw American troops from Vietnam.

The mission was asked to propose several scenarios how this could be done. My job was simply to look at the economic consequences of the reduction of the American forces in the country and what affect this might have on foreign exchange availability and any other economic consequencelt was a secondary issue: obviously the military-political issues were far more important.

There wasn't anything very sophisticated one could do about this. Basically you could look at the amount of foreign exchange and develop some relationship between the number of soldiers and what they were spending and then examine some secondary effects. I think that the embassy came back with three scenarios shorter or longer-it was really the speed of the withdrawal. I put an economic price on each one of them. That was sent back as the position and I think they probably picked the middle position. It had already started in the fall of 1969 in the Delta region which was the quietest. By the time of the North Vietnamese offensive in the spring of 1972, there were no American ground forces left in Vietnam. There were some aviation I believe. But that was it.

Q: And so in the summer of 1969, fall of 1969 you left?

GORDON: Just before Christmas. I was there 18 months.

Q: Where did you go?

GORDON: I went back to the States. And I stayed in the States I guess for the longest single time since I had joined Treasury- three and a half years. Initially when I came back, they were going to reorganize the whole office of International Finance. I might say I had been promoted. I was a GS-16, a fairly senior person at this stage. The assistant secretary said that he would place me in a permanent position once the reorganization took place. He talked as if it would be a couple of months. It turned out to be seven or eight months.

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I was given various assignments, perhaps the most interesting one of which in light of my subsequent work in Treasury, was studying a Nelson Rockefeller proposal that Latin American countries which had the most debt be allowed to repay their debts in local currency. The U.S. had experimented with this local currency idea. It was one of the initial foreign aid ideas in the 1950s. That is, you could repay in local currency and it would be easier to repay that way rather than in dollars.

Q: The PL-480?

GORDON: The PL-480 but also development lending in the 1950s was repayable in local currency. It was only in 1961 that they went over to dollar repayment on both PL-480 and dollar lending. Since this was 1970, I don't think there was any enthusiasm from the American government, particularly in Treasury, because we had seen a lot of local currency accumulate in our accounts which was absolutely useless. We saw it as the equivalent, in many cases, of simply writing off the debt which naturally Treasuries dislike intensely.

Since Nelson Rockefeller was a high mucky-muck for the Republican administration, the Treasury was tasked with the problem. Paul Volcker, who was under secretary for finance which included both domestic and international in those days, was asked to be responsible. My assistant secretary, John Petty, assigned me to Volcker as his staff man for this subject. I was asked to work with the World Bank which had already been collecting statistics on international debt in the developing countries. We had a little working group: somebody from the Bank, a person from the finance division of E. The three of us came up with a report after a couple of months. It was a fairly large subject and was getting high level attention. So we had to do a good job. We rejected Rockefeller's proposal but asked the World Bank to study the problem and improve its statistics.

I remember that being important in the sense that it was the beginning of my career in LDC debt which lasted until 1985. It was about then in August, that they reorganized the

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office and I became an office director for the first time. I was still in the developing nations division in which I had spent my whole Washington career.

The division had three parts. The first was responsible for Treasury's relationships with the development banks: instructions to the U.S. directors, appropriations for capital increases, etc. The second covered all the desks and did most of the work pertaining directly to countries. The third, mine, which was new, concerned itself more with policies that were related to developing countries like aid policy, Treasury's local currency holdings, nationalization was a big issue at the time because the Chilean government, under Allende, had nationalized the American copper companies. This office also had a relationship to OPIC [Overseas Private Investment Corporation], to the development loan committee of AID, to the PL-480 committee, and a few other things. Our big issue was debt rescheduling.

So we had to do all those things to the chagrin of my friend, who was a couple of years my senior and who supervised the country desks doing the routine briefing, while we did the sexy issues. I think the big issue, and this was about from the late summer of 1970 until say the spring of 1973, the issue that preoccupied most of our time was Chile.

I remember that John Connolly became Secretary in late 1970 or 1971, as a matter of fact. Nixon wanted a tough policy on Chile and he naturally didn't trust the State Department to have any tough policies. So he decided to give responsibility for the debt negotiation and other economic issues pertaining to Chile to the Treasury, taking from State its normal role as chief foreign negotiator with Treasury in a supporting role where financial issues are concerned. Treasury was put in charge of not only formulating positions in Washington but of the negotiations overseas. Treasury became the lead agency negotiating with Chile on the issue of nationalization of American properties and what we were going to do about it, as well as debt rescheduling.

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My assistant secretary who at that point was, Jack Hennessy, Chairman of First Boston until recently, had been a banker who had entered the Treasury as a deputy assistant secretary, and when John Petty, who was also a banker, left, took over. We worked very closely together on this issue. We used (this was one of my contributions to policy) the Paris Club as a way of trying to get the nationalization issue solved so compensation for nationalization could be interjected into the Paris Club negotiation. The idea was that Chile couldn't get its debt rescheduled and its international credit at least partly restored unless they made some commitment to compensate the United States for nationalization of the copper companies.

And that of course led to a rather prolonged negotiation not only with Chile but with some of the other countries in the Paris Club who said that that was a bilateral issue between us and the Chileans and why were we interjecting it into a multilateral negotiation. I recall that it was in 1971 when this thing came to a head. We had four meetings in Paris over two and a half months and I attended every one of them. I went as deputy to Hennessy except for one where I headed the delegation to a technical meeting. It was very, very intense.

Subsequently we had issues in the implementation of these agreements. The Paris Club, as you may know, establishes a multilateral formula covering the terms of the rescheduling except for interest rates, within which each country negotiates with the debtor country a bilateral agreement to implement it. That bilateral will also include applicable interest rates and technical issues which are not subject to the Paris Club. The point of the Paris Club agreement was to determine such things as type of debt covered, repayment and grace periods so that the debtor could not play one creditor against another.

Subsequently the main issues were establishing a position on nationalization of American properties abroad, designing a more coherent debt rescheduling policy and managing our holdings of foreign inconvertible currencies. Afterwards negotiating with Chile seemed a constant activity. The ambassador, Orlando Letelier, who was murdered years later, in Washington, by the Chilean government after Allende was thrown out in 1973, used to visit

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Hennessy all the time and I was always present. Their financial attach# would also visit me to work out the details of our agreements.

One of Treasury's objectives was to take a tough stand against foreign nationalizations of American private investment by insisting that realistic compensation be paid. To the extent these properties were insured by OPIC we had to foot the bill. Although there was nothing novel about this position, establishing it as a high priority national policy was another matter. State, as usual did not want its "flexibility" hindered but since the President was behind it, we carried the day.

Establishing a more coherent foreign debt rescheduling policy was difficult because outside the Paris Club, which managed only export credit in those days, there were various aid related agreements arrived at, sometime in World Bank consultative groups such as India or an ad hoc fora for Ghana and Indonesia. Outside the Paris Club which had developed its own accepted formula, it was pretty much a case by case thing. And at one point, in fact, we even provoked a rescheduling with India because we thought other countries aid was on much harder terms than ours so that rescheduling would reduce the differences. We had special deals with Indonesia because most of their debt was to Russia and Eastern Europe. In violation of the "treat all creditors equally principle," we cut the Russians out and rescheduled our own debt on exceptionally concessional terms as a gesture to the post-Sukarno government. Therefore, we spent a lot of time to develop and interagency approved debt rescheduling policy which would be applicable to all the debt negotiations, especially aid related debt as opposed to export credit.

Local currency, as it was called, are the holdings in the Treasury of various inconvertible monies generated by different aspects of the foreign aid program, as I mentioned earlier when discussing Rockefeller's proposal. Within the Treasury, the Bureau of Accounts is responsible for their custody. They were available to embassy disbursing officers for all normal US government local expenses. By using them instead of converting dollars we improved our balance of payments, a burning issue at the time.

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But because some holdings far exceeded our needs, a law was passed which required Treasury to define what is an excess currency country by a formula which compared holdings to projected requirements over several years. If they clearly exceeded two years requirements, the country was declared an “excess currency” area which meant that an agency like AID could then submit a special appropriation to be payable in local currency for India, Egypt, and Pakistan, the main countries. It had the effect of extending the reach of its aid program.

Two countries differed from the general category but not for the same reasons: Israel and Poland. In Israel, the “excess” currency margin was slim but the currency was very valuable because we could hire many Israeli scientists, at a fraction of the American scale, to do various projects for us. The Israelis liked the program because of the employment it generated and the connection to the American research programs. But given the currency holdings, the justification for continuing Israel's excess currency status became very weak. After one determination, I had to go to my boss and say “Look, we are straining the law here and we can't go much further. We are going to be criticized sooner or later for this.” It certainly was not the situation we had in India where currency was so abundant that it could have been declared excess forever and no one would care.

I said the same thing to the Israeli financial attach# who I used to see from time to time on this issue. Being quick off the trigger, as they frequently are, they soon came back with a proposal which they ran by George Schultz, then Director of OMB, first rather than take it to the Treasury because George Schultz was known as a great friend of Israel, for some reason. The proposal, which he supported, was for Israel to repay the debt and for the United States to grant it back as the funding for a foundation that would continue the existing program. It was nicely designed to meet their interest in the work and ours in avoiding the excess currency designation.

I was involved in the negotiation because I was the key staff man in the US government on this issue. My main role, to the chagrin of my Israeli counterparts, was to insure the funds

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came from the far end of the repayment schedule so that we still had some Israeli pounds for our own use. Basically what we did was to have Israel make an advance payment of its debt and deposit it in the foundation-basically a bookkeeping transaction and then pay an interest rate on the foundation's capital which provide the income to continue the same activities as before.

In Poland's case, because it was the first instance of aid to a communist country, we had attached a condition that the local currency be denominated in dollars so that if there were a devaluation the Poles would have to revalue these accounts. The money was also useful to us because in addition to embassy expenses, there were a number of Americans of Polish descent who were settled in Poland collecting social security checks. We could use the Polish zlotys to pay them rather than converting dollars.

But in 1972, Henry Kissinger who was known to like to pass out bags of money in every direction whenever he thought there was any foreign policy interest to be gained by it, went off to Eastern Europe accompanied by the Treasury undersecretary (not Volcker at this time). Henry gave away the Polish money. We had put in the briefing papers, "Don't give away the Polish money because unlike other excess currency countries, this was real money." The undersecretary(who I had worked with on other issues) came to my office and, in effect, apologized for not being able to stop him. So we lost 60 or 70 million dollars because Henry made the gesture, " something nice for the Poles, just, write it off...you know.

I should also mention India of which our currency holdings, as I have said, were by far the largest. This was the one country where local currency was a foreign policy issue. We two countries always have things to quarrel about. When Patrick Moynihan became ambassador, he decided that we must do something about it, taking pretty much the Indian position that it be simply wiped out. The Indian Treasury wanted us to convert dollars for \$25,000,000 we spent a year on embassy and consulate expenses locally. Moynihan was correct but his position was too extreme from the point of U.S. financial interests. In the

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end, we settled for a half a billion dollars for our expenses and to maintain the excess currency program for another ten years. The rest, several billion dollars was granted to India, making quite a splash in our balance of payments that year.

Q: Did you find that the people in the Paris Club had twopolicies...one for our friends and one for our not friends?

GORDON: Well, to some extent we did have that. And at any Paris club negotiation there was always one developed country, one creditor who was generally closer to the debtor than some of the others were. It was frequently the U.S. It could be the French sometimes wherAfrican countries were involved. It could well be the British occasionally. That country would try to work a little bit as intermediary and try to soften the terms and get a better deal for the debtor.

But the Paris Club had fairly rigid rules. There was not very much play in these rules. You could work out a few little gimmicks here and there: extend the repayment period another year, increase the grace period slightly, defer interest, etc. But the effect was limited. We had never taken such a strong position against any country as we did in the case of Chile. Generally, I think in the Paris Club, we in most cases, did not take a very strong position one way or the other.

Once in a while, another issue was whether the country had to have an IMF stand-by agreement before they were eligible for rescheduling. The French made a big deal about this except for one or two cases where they were interested. I remember one case I was involved in where we try to violate this rule for Nicaragua just before the Sandinistas came in. The French resisted. We did get to see the first Sandinista delegation as a matter of fact.

One other interesting issue, which was highly political in effect at the time, was the Polish debt rescheduling, in 1980 which was sort of in the Paris Club and not in the Paris Club.

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We convened a special meeting. In fact, I was sent in more often than not. Chuck Meisner, whom you may know...

Q: I know the name.

GORDON: You know the name. At one point he had the rank of ambassador and was a negotiator for all sorts financial and economic issues. He had been in Treasury before where I knew him very well as a matter of fact. He would come over periodically for these things. He would often represent the State Department in the Paris Club. He represented us on Poland and then bowed out and told me to go. So I was in Paris-I'll get to that. I don't know why I am talking about this now, this is really later on. Excuse me. I jumped to my job in France. I did do a lot of these negotiations while I was in Washington in 1973. And when I went to Paris in 1978, one of my jobs at the embassy was liaison with the Paris Club because it was a Ministry of Finance function. But I can talk more about that when we get to that point.

Q: What about Peru? They had done some nationalization?

GORDON: That is right. Peru was another big nationalization issue, IPC-International Petroleum Company. That was a long standing issue with the United States.

Q: I was wondering, I mean here, were Chile and Allende more on ou "Black List" than Peru?

GORDON: Well, yes you are right because whereas iPeru, the difficult issue was essentially nationalization, in Chile the position was that this was just one of a number of anti-American things. The Peruvian government could be nasty at times but it wasn't basically anti-American whereas Allende was acting as if he was a savior for all anti-American Latin American movements and deliberately striking at the United States. He did not nationalize, for example, two small copper companies that were owned by the French and the Germans. He only nationalized the big ones that were owned by the

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United States. That could have been justified in terms of size but I don't think that really was the justification. He nationalized because it was a political gesture as well as anything else. It was, as I say, a deliberate attempt to sharpen relations with the United States-hurt the relations with the United States because even under the Christian Democrats the assumption had been that sooner or later the Chileans would take over these companies. But had the Christian Democrats been reelected there would have been a negotiated buy out and there would have been terms of compensation. If he had wanted to do that something could have been done, I am quite sure. But he did it in such a way as to make it an issue.

Q: Were you in this job...I can't remember when Allende was overthrown?

GORDON: He was overthrown in 1973. I am not sure whether I was still there or it was a few months after I left. I can't remember when in 1973. I left in May or June of 1973. We were aware that things were going on and we were given access to fairly sensitive intelligence material at that time. I was one of the rare Treasury people below the Deputy Assistant Secretary level that had access what we used call "cosmic clearance," signals intelligence.

I was given that clearance specifically because I was working on Chile. I would see these intercepts. We were able to intercept the Chileans without much trouble. In the negotiations, we would generally find out what their position was before we went. I was aware that the President had personally charged Connolly with this job and harassing Chile as much as possible on the economic side. But we weren't involved in any other way with what the CIA was doing.

I did have contact with CIA in another way. I remember going out in late 1972 or early 1973 to a CIA working group that was doing an assessment on Chile to interject, you might say, the public face of relationships with Chile because, I think, in their own parochial way, there were certain things they weren't paying much attention to.

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There is one other episode that came up quite apart from my regular work in the fall of 1971. When the U.S. cut the link to gold in the summer of that year, a new international currency situation was created. The dollar was now floating and no one was sure what its stable value might be vis-a-vis the other major currencies. The Treasury feared a competitive devaluation race much like the 'thirties which would nullify our objective of achieving a more competitive export position. It decided to negotiate new parities with our major partners, beginning with Japan.

Secretary Connolly was to do this personally taking advantage of a trip to East Asia in which he acted as the U.S. representative to President Thieu's inauguration and contacts with other East Asian countries designed to reassure them that the new opening to China would not make the U.S. any less of an ally. We traveled in Air Force II. For reasons I have never understood, I was the only Treasury staff member. John Petty saw me as Treasury's one Asian expert and wanted to send me to Tokyo, which was perhaps the reason.

On arrival in Tokyo, the Japanese put us in a hotel and the ministers and their staff came to visit for two days. Connolly was considered a "typhoon," a tough cowboy sent to twist arms, very different from the sophisticated lawyer that he really was. We achieved our objective of a Japanese commitment to a substantial appreciation in relation to the dollar so that we could convince the Europeans that their concessions would not lay them open to Japanese competition. I was only partly in Connolly's confidence and Volcker was not terribly pleased when I briefed him on returning to Washington.

Q: You were in this job basically from 1970 to 1973?

GORDON: 1970-73. yes.

Q: And in 1973, where did you go?

GORDON: In 1973 I went to Hong Kong. I had rejected Tokyo earlier in 1972 because living conditions were not very good for my family and I thought my career might be better

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served in Washington, but by 1973 I gotten fed up with Washington. I had been there three and a half years. I had never liked Washington very much in Treasury because I always found that, in Washington, when you are in the Treasury you are either generally fighting with State or occasionally with AID over policy positions. There are only a few areas in which Treasury has the policy lead, a couple of which I was involved in. And so it is interesting and involved because I don't mind negotiating with other agencies if I have, too. But even on debt policy we had a tremendous struggle with State all the time about terms of debt rescheduling and it got very nasty at times when we were encroaching on State's turf in the case of Chile. Sid Weinberg was the Deputy Assistant Secretary in charge. Personally we got along very well but bureaucratically it was difficult from time to time. In other cases, State was still in charge of the negotiations but there was always a lot of bad feeling about getting agreement on positions and making sure that State carried out them out.

There were too many bureaucrats doing these papers. I always found myself more comfortable in the field, either doing the kind of work I was describing, or even reporting which, at least, had an economic analytical function to it rather than spending a lot of time negotiating, or sometimes writing position papers, or preparing briefings for visits. We received a great many visits in the Treasury from economic officials throughout the year who would always stop by when in Washington. The assistant secretary had to have a briefing memo. You would take an awful lot of your time doing or supervising these things.

I wanted to go overseas and Hong Kong came up at that time. Most of my bosses thought I was crazy because they didn't think Hong Kong was very important anyway and why would I want to go to Hong Kong. But the Far East was both professionally and personally attractive to me, having already been there twice.

Hong Kong had been a post which Treasury had a foreign assets control representative to monitor transactions with Communist China. When the relationship to Communist China became friendlier in 1971 we abolished the foreign assets controls over Chinese

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transactions so that the post no longer had that rationale. We made it a regional Treasury post for East Asia, excluding Japan of course which had its own representation and Vietnam which still had its own representation at this point. This was 1973.

Q: You were there from...?

GORDON: 1973-1975. Just for two years. As a place to live, it was very nice. My wife, as she did in almost every place, found a job in the local school teaching Spanish and my kids went to the school which was a good one. We had a very nice apartment which we inherited from my predecessor overlooking the harbor on the hill on Hong Kong island.

Within the consulate general, work relationships initially left much to be desired. My predecessor had a highly specialized job which did not interact very much with the rest of the consulate. I was accustomed to close working relationships with the economic section and with the senior people while the consul general seemed to regard Treasury's role there as an intrusion into the existing State Department-CIA monopoly on reporting on Communist China. Also, I found that technically, the people who were doing the economic reports pretty backward. They didn't really know how to organize some of the information that they were getting. It took a while to become accepted which I achieved in part by showing them how to put their trade reporting into a balance of payments framework.

The issue of official status was more difficult there than anywhere I have ever encountered. Treasury attach#s elsewhere have always had a diplomatic passport but accepted that their rank of attach# which put them rather low on the official totem pole. State issued me only an official passport which I thought demeaning. They justified this decision by saying that it was a consulate not an embassy but foreign service officers got diplomatic passports no matter where they were. Of course there were many CIA officers and, as foreign service, they had diplomatic passports.

But when I found out, after arriving, that the military, who are not posing as anybody but themselves, also had diplomatic passports. Treasury raised this issue, unsuccessfully, with

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the Under Secretary for Administration in the State Department. It was not a big issue but is indicative of the kind of arrogance and pettiness which State in Washington had when dealing with other agencies overseas.

I had regional responsibilities as well as Hong Kong and HonKong-Chinese duties. That took maybe 25% of my time.

Q: Regional responsibilities...Hong Kong up to then and even later, even after we established relations was always "the place" to China watch. That was the main reason for being as large and all. When you were sent out there were you a China watcher too?

GORDON: Well, yes. I had many things to do...China watcher, relationship with Hong Kong per se because it was a financial center, and the other countries-mainly Korea, Taiwan, Philippines, Indonesia, Malaysia, and Singapore. I would get reports from these countries but the important part of the regional work was carried out by a semi-annual visit. I would spend about a week there and have discussions with the economic section, see what the issues and problems were and report directly, in letter form, to Treasury. To the extent that there was any interaction with Hong Kong, I would get involved in that too. But there wasn't very much. Now that relationship varied from place to place depending on embassy attitudes. In Korea it was very easy because Phil Habib was the ambassador and a good friend of mine. In fact I stayed at the residence when I was there. I still knew many people in Korea from my previous tour there who were in very senior positions and so it was easy for me to function. In the case of the other places you really depended upon the attitude of the economic counselor and whether he was friendly or not.

The Philippines was also relatively easy because Bill Sullivan was ambassador. And I got to know him in part of during my Vietnam tour when as DAS he had come to visit. He was very welcoming and I got good cooperation from everybody there. The Philippine desk officer in Washington had been an old friend of mine from Korea and our visits coincided once or twice. The new ambassador to Indonesia passed through Hong Kong on his way

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there. I was asked to brief him and establish a friendly relationship that proved valuable during later visits. In general, there were no significant problems, either with the embassy I would spend maybe a quarter of the year either going to these places and then writing reports about them.

The rest of the time I would spend some time contacting the Hong Kong authorities and reporting on Hong Kong financial developments. I had a small role vis a vis China. I had a relationship with the Bank of China which had a branch in Hong Kong. But most of the China thing dried up because my period there coincided with the struggle between the gang of four and Deng Xiaoping and the others as to what the relationship with the United States really should be.

Even though we had not quite formal relations, de facto relations at that time, really froze during that period. It was very hard. The consular people who before were allowed to go to the Canton fair twice a year, were not even given visas because we had three people in Beijing and they were supposed to do all the work. The people in Beijing were essentially doing nothing because nobody would talk to them. They were reduced to counting cars outside the convention hall to find out if a major meeting was going on.

Q: What about that part of the China watch, which I assume was continuing, which was all sort of reading provincial papers, interviewing people. Were you plugged into this system in China?

GORDON: I was plugged into the economic part of it. A large part of the economic sections workload was trying to calculate a Chinese trade pattern. This was done partly in Washington and partly there because you would get partner countries trading records as a basis.

But I also tried to work on a balance of payments. That is invisibles as well, and tried to estimate what all the sources were. No one seemed to have done that. Apparently even the agency hadn't done this work I was surprised to find out. The only original contribution

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I made to China watching was to develop a scheme for a balance of payments for Hong Kong as well as a balance of trade and insert the balance of trade into the balance of payments. We also has some discussion about at that time what China's prospects were as an exporter. There was a lot of discussion about oil, about China being a great oil exporter. I remember taking the position at that time that the Chinese, in opening up, were just following their East Asian neighbors. And that there comparative advantage lay in light industrial products as everyone else's did in that area historically. And over time that was where real export increases would take place.

As it turned out, oil was even less abundant than we thought it was at the time. China became a net importer after six or seven years. Far from being a commodity exporter, it followed the same path as Hong Kong, Korea and Taiwan. Those countries have now moved much of their less advanced production to China to take advantage of the low cost of labor.

Q: What was your impression of the dynamics of Hong Kong? Was this a solid market there? Or were these people living on the edge, were they gambling? How did you feel about that?

GORDON: Hong Kong was a very soundly based economy. It had been the pioneer in the export of textiles and then later various light industrial goods, excluding Japan which had done that long before the war. It was a great example of a kind of 19th century capitalist economy which had the advantage of having a British framework of law which people could trust, very stable prices because there was no central bank and technical expertise in the textile industry that had been transferred from Shanghai. It had a difficult time in the first few years in the early 1950s because it was flooded with refugees from the Communist takeover. The population had increased three times in the space of a few years.

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By the 1970s it was flourishing and becoming a financial center for East Asia. It was a place where everybody could do things they couldn't do in their own country. And that is why it was superior to Singapore where the government always wanted to stick its fingers into everything. As far as the British were concerned as long as you obeyed the law you could do anything else. Taxation was relatively low but there was no dearth of revenues. The infrastructure was quite solid. It had a good airport. The utilities worked.

The only odd thing about Hong Kong was that there was a shortage of potable water. It had to buy its water from China. The water in the sinks and so on wasn't drinkable. But aside from that, the place ran very well. But if you were stuck in Hong Kong all the time and you didn't travel, it was kind of a dull place because of the limited number of shops you could visit and the restaurants you could visit. And that was about all you could do in Hong Kong. There was very little cultural life then. For one month a year there were some people who would pass through on their tour from Japan to the United States or to Europe or something of that sort. We would get a few concerts, a few plays and go to the movies occasionally and that was it. We were stuck because we couldn't go to China at that time. It was impossible to get a visa.

Q: You were there during the Watergate time. Did that have an particular effect on your contacts or other countries?

GORDON: No, not particularly. I think Hong Kong had the same attitude as most foreigners at the time: they were mystified by the whole thing. They couldn't understand what the issue was. Why anyone would actually indict the President of the United States who had just been reelected by a large majority over his opponent was incomprehensible. After all, most countries were accustomed to presidents doing things like that all the time and no one saying a word about them.

Hong Kong was a colony. The Chinese there didn't take much interest in American or their politics for that matter. The only concern was how it might affect the American market.

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Q: How about Hong Kong investment in the United States. Was thimuch of a factor?

GORDON: Not really. And I wasn't involved in it. That was more something for the commercial people. There was a good deal of American investment in Hong Kong.

Q: Who was the consul general while you were there?

GORDON: There were two. One was David Osborn, a Japan specialist. The second one had been ambassador to Singapore. Then he became consul general in Hong Kong. I don't know if that was a demotion or not!

Q: I'm not sure either.

GORDON: I can't remember the second one's name.

Q: It doesn't matter. Let me just stop here. You left Hong Kong anwhere did you go then?

GORDON: Actually at that point I didn't really want to go back. But Chuck Cooper who had been my initial boss in Vietnam and who had been in and been out of government since, had become Assistant Secretary for International Affairs in the Treasury Department. He called me and said, "What are you doing out there in Hong Kong?" He said "We could use you back here in Washington." And I had been in Hong Kong maybe 20 months or something like that and I was looking forward to a second tour in Hong Kong. Even though it was quiet professionally, my family and I liked it. SI replied that "I might as well spend another two years here rather than go back to Washington." I didn't see many interesting things to do. But he was stubborn and we negotiated a little bit about rank and the position and finally I agreed to go back.

And he put me in charge of an office that was a little bit like the job I was doing before except I was concerned with multi-lateral development banks rather than the bilateral aid issues that I was concerned with in my Washington job in 1970-73.

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At that time Treasury was very concerned with the expansion of the World Bank and the policies that MacNamara was undertaking. One of our Under Secretaries was complaining that financially the bank was not all that solid because of what it was doing. That really was a very sensitive issue. For the Treasury to suggest that the Bank was not financially solid was surprising when its securities were triple "A" and sold at only a fraction of interest rate more than US Treasury bonds. Essentially, it was a stick to rein in MacNamara who was expanding very rapidly, in some cases without regard to the quality of the projects.

So we engaged in another one of these exercises. I was made the point man and spent much time talking to the Vice President in charge of finance and the Treasurer of the World Bank trying to arrive at some sort of formula to resolve the problem. I learned a lot about loan administration but it is doubtful we had any lasting impact.

The other big job at that time was the major expansion of the IFC (International Finance Corporation) which Treasury was very much pushing as part of a policy to promote private investment overseas. I was in charge of preparing the basic report for the National Advisory Council. There were contacts with the other principal shareholders and a lot of congressional preparation to support the request for appropriations for the U.S. share. That occupied months. I had only one assistant and he was not very competent.

Q: What is the IFC?

GORDON: The IFC is an affiliate of the World Bank. Whereas the World Bank makes loans only with the guarantee of the borrowing government, even if the money is going on to another organization, the IFC promotes private enterprise in LDCs by making loans or investments in indigenous private enterprise or brokers connections to foreign private investors who may want to hook up with local private investors.

It started out as a fairly small organization. It wasn't created at Bretton Woods in 1944. It was conceived later. This was a major increase in capital. The US-this was under Ford,

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a Republican administration - generally favored the expansion of private sector activities and this was one of the things that they could do. Though not terribly keen about the World Bank's other activities, they thought this sector was useful and other countries went along. For most countries it was a small amount of money compared to other requirements of the World Bank group.

This activity lasted until 1976. Cooper, at that point, resigned from his job. We had this organizational monstrosity in the Treasury. Simon had been Secretary and he had established a parallel office of International Finance for activities to which we had not paid much attention such as commodities, oil, etc. He put Jerry Parsky, his protégé, in charge. After Simon left and people said "This is ridiculous. We have over-expanded and we shouldn't have two assistant secretaries in effect competing with each other."

So they were put back together again. That reduced the availability of jobs. I was given some odds and ends to do at that stage.

So I applied for a federal executive fellowship at the Brookings Institute to do something useful and work on some ideas about economic development strategy that I had been thinking about. This was the spring of 1976. Parsky, who was in charge of the combined divisions, said okay, I'll support you in this but you have to do me a favor. We need somebody fairly senior in New York for the Law of the Sea negotiation to keep an eye on the seabed talks. I was sent, with one assistant, for four or five months, most of which I spent at the U.S. mission to the UN.

Treasury's objective concerned mining in the sea bed. It didn't want these resources to be given up to developing countries as a form of aid. The only reason the developing countries were interested in the conference was economic - offshore fishing rights and the minerals in the sea bed - this alleged mirage which has never materialized - all these alleged riches that were supposed to do transform their lives - by using the sales proceeds

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to create a great new fund that would help them and provide jobs for all the officials concerned with the talks.

This had been going on, in typical UN fashion, for 12 or 14 years by the time I was involved. A tentative agreement on a protocol of the sea bed had been reached. I had the privilege of seeing Henry Kissinger there and even shaking his hand!

The activity continued into the early fall when a meeting for the group of five, which was the steering committee for the developed countries in the Law of the Sea negotiation included the Russians and the Germans as well as the U.S., Britain and France. The meeting was in London and a reception was given at the Russian Embassy because the Russians and we, as major naval powers, were interested in maintaining freedom of the seas. It was my first contact with official Russians.

I then spent a year at Brookings, working on a paper contrasting the development policies of Korea and India. The thesis was Korea's export oriented strategy was far more effective because it made its economy much more competitive, while India's import oriented plan led to a misallocation of resources and constant balance of payments crises. I wrote quite a bit but I never really whipped it into shape to do anything with it except to clarify my own thinking. It should have been the basis of a book.

I went back to the Treasury in the early fall of 1977 where I was given some odd jobs to do. At my grade, I rated an office director position but there were not any open at that time. There were no senior foreign jobs open either. So I was marking time until somebody came up with something.

Then Paris came open in the spring of 1978 and the deputy assistant secretary for European affairs, a career man, who I knew pretty well, proposed me. There was some resistance because I had always been involved in developing countries and the staff over there seemed to think that anybody involved in developing countries could never handle a developed country. I did have the advantage of being able to speak French which was

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more than the incumbent at the time could do competently. He had limped through a FSI French course. My French had a good academic grounding and four years prior residence. I was assigned to France in June 1978.

Q: And you were there from when to when?

GORDON: I was there until the summer of 1982, four years.

Q: How did you find the France of 1978?

GORDON: I had been to Paris a number of times in the interim, usually on brief visits so the look of the country wasn't all that different. But I hadn't really spent much time there. Physically, it was a very different country than the country I had lived in, in the late 1950s, much more modern and far more prosperous than it had been before in every respect.

Paris, of course, hadn't changed that much by deliberate policy, although it was much cleaner and brighter. The buildings, that came later with Mitterand, hadn't yet been built. It was basically a cleaned up version of the Paris that I had known in the 1950s. I enjoy France very much. I like the French as individuals but not as a government. That view was common in the embassy which was one of those rare missions that was not a partisan of the country to which it was accredited. I guess it was more like Moscow. We took a fairly hostile view of the locals.

Q: Those were the two countries. We have put together an oral history reader taking extracts of those who served in France. And I had some of the ministers in France read it and they said, "My God, these people don't like the French policy; the French culture...fine...French policy, no!"

GORDON: That's right...no. We enjoyed France. We liked French culture, liked being in France but didn't like dealing with the French government. This feeling was some what attenuated by the attitude of the Ministry of Finance where there was a certain - what

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should I call it? - professional camaraderie, which I mentioned earlier. We were both “financiers,” sharing our arcane arts as compared to the non-expert.

I used to see a number of people fairly regularly, one of whom is Michel Camdessus, who is now the director of IMF, and was, at that time, the equivalent of our assistant secretary of international finance. My contact was with him and those more junior, depending on the issue. I rarely had contact with the next level, the director of the Treasury who was the equivalent of our under secretary of finance, and with the minister, only when accompanying the ambassador. At the Banque de France, I would see the two vice-governors regularly and the Governor occasionally as well as the director of research. I also spoke to the economic advisor to the Prime Minister from time to time.

By and large, my relationships with individuals, with one exception, were fairly good and close. We got along quite well as friends. I never had any difficulties getting appointments and talking to people and they were relatively frank. The Bank of France was even friendlier, actually, most of the time. There I really had access to the governor who invited me to lunch a couple of times.

The subjects which took up most of my time were debt rescheduling, export credit, macroeconomic reporting and European payment arrangements.

Camdessus was also president of the Paris Club. We didn't have as many meetings in those days as we had later on perhaps, four or five a year. Any time there was a Paris Club meeting, I would go over and discuss the issues with him and tell him something about the American position. We would coordinate. I was the American liaison. When the delegation would come from Washington, they would meet in my office. I was always part of the delegation.

Poland, which I mentioned in passing before, was addressed informally for political reasons at the time (1980-81). The issue was whether the Russians were going to move in again because the Polish government was getting too uppity for its own good. The Polish

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debt was a rather serious issue both for the export credit agencies who had lent a lot of money (with the exception of the United States). There was also commercial bank debt to Poland which was outside the Paris Club's jurisdiction but connected to the general question of creditworthiness.

Chuck Meissner, State's roving negotiator, who was our representative, didn't seem to like to be involved in this too much. So I had a bigger role there than I normally did and would often go alone to these meetings. We had one at the Polish embassy. Dealing with Communist bureaucrats is rather different than working with other foreign officials.

Q: Could you explain a little how you found it different. I mean, Polish official...a Communist official?

GORDON: Well, the difference was the whole procedure was alien to them. They were startled by the idea that you would discuss their statistics which they considered state secrets; that we would ask them about their economic policies or that we would request information on exchange reserves? They were perfectly normal questions for any other country. It would all be in an IMF report before we even started if we were dealing with another country.

They did not want to reveal any of this. They had to be educated in the procedure and the understanding of what we were doing. They were so politically oriented that they couldn't conceive of rescheduling as basically an economic/financial transaction which had certain rules and criteria of its own. It took a while. I don't think I was involved in the conclusion.

Another important and difficult issue that took much time was negotiating a multilateral agreement, under the auspices of the OECD, that would limit export credits as a competitive export promotional instrument. The French saw export credits as terribly important in their export drive. Generally in the multi-lateral negotiation, the US was always on one side and the French were always on the other, with most countries lined up on the American side and a few on the French side. So the real negotiation came down to

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what the US and France agreed to before the meeting with the OECD. My office was the staff for that in the embassy. We would act as informal advisors to the US delegation to the OECD meeting. There was also extensive reporting on the policy and particular transactions. Finally, there was an annual bilateral meeting, headed by the Chairman of EX-IM which took considerable preparation.

This was a nasty piece of work because the French regarded credit as a very important weapon in their export drive and they regarded any attempt by us to curb them as economic warfare. They weren't above lying which was rare generally in dealing with them - they generally avoided out-right lies.

Q: The socialist government came in at that time. Was there a concern on the part of our government and treasury? After all this was early Reagan administration.

GORDON: There was a concern. Anything that affected the country's macroeconomic stability was followed closely. The basic task for the Treasury, that my office had to carry out, was reporting on macroeconomic policy and projecting French growth, balance of payments and inflation for the following year. Our main sources were the French statistical institute, the forecasting division of the Ministry of Finance and the Banque de France. These were sensitive issues because the world economy was depressed from the 1979 oil price increase and suffering from inflation as well. I had to explain Carter administration policy which was widely criticized in Europe. The fall of the dollar was particularly alarming for French officialdom because they were afraid it would stimulate American competitiveness and inflation in their country.

Macroeconomic issues became a key point of contention when Mitterand was elected in the spring of 1981. Up to that time, France had been following a very conservative policy trying to align the franc on the Deutschmark as part of the European monetary agreement.

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Q: And here was a socialist government coming in which was going to reverse course, particularly on the finance side, that would arouse concern.

GORDON: Well, there were two things. You have to remember the political context. Mitterand brought four communist ministers into the cabinet for the first time since 1946. 1947 was the last time a communist actually served in the French cabinet. That set off some bells in Washington.

A little after Mitterand came on, Hartman left. And Galbraith (the other Galbraith), not John Kenneth Galbraith, became ambassador. He was a very conservative Republican and rather more outspoken than the State Department wished. And, in fact, he was chastised publicly a couple times by the French Ministry of Foreign Affairs about his remarks on the communist ministers.

But the economic policy they established was the other. They had been out of power since 1956. They took the view that France was stagnating and needed a little “pump brimming” to make it grow faster. That was their highest priority. But by scaring private investors and causing a huge capital flight, their other key policy, a massive program of nationalization, depressed the economy. They were out to complete the goals of 1946 without paying any attention to the fact that such a policy was passe everywhere else in the West. It had absolutely no rationale except the ideology of the socialist party which is driven by high school teachers.

There were even some sympathizers within the ministry of finance-people who had come along like the minister of finance, Jacques Delors, later president of the European commission for a number of years.

GORDON: He was Mitterand's first minister of finance. He had an orthodox financial background by working for the Bank of France. He was a progressive Catholic from a working class background in a party full of secular Protestants and Jews. A number of

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the key people who had been promoted and became important in the hierarchy of the ministry of finance at that time were inclined to socialism, perhaps because it is not so very different from the state capitalism the Ministry has always practiced.

The real issues was macro-economics. The question was could they carry it off? The argument we had with them was that, if you expand faster than your trading partners, there will be a balance of payments crisis. There had been a balance of payments crisis in the sense caused by the advent of the socialist government which led to a great capital flight by persons who feared taxes on wealth and other confiscatory measures in their first week in office. The franc had to be devalued. The economic advisors would tell me that they would just be little ahead of the rest of Europe and the problem would be avoided.

Of course, they were wrong. And they had to go through two devaluations and a couple of stabilizations before they reestablished the position that they inherited from Giscard and Prime Minister Barre. Treasury followed this issue very closely because France was the only major European country with a balance of payments problem. I did most of the reporting.

The issue of nationalization also caused bilateral problems. Although no American property was confiscated at the time, the United States was disturbed by such a massive acquisition of French properties. The whole French private banking system was wiped out. Only the four biggest banks had been public. They started buying some other companies as well that have since become private again. So the policy made no sense at all except in terms of a socialist ideology which was already obsolete in the rest of Europe and it has taken France a long time to recover from it.

Now here I was in a country in which the Treasury was much more interested than the countries I had been to before, although not as much as Germany because they recognized that the German mark had a unique relationship with the American dollar. The French franc and France was ancillary to that relationship. But the thing they were

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interested in was the European monetary union idea which had been a joint French-German proposal- where it was going and what its purposes were. And so I spent quite a bit of time at the Ministry of Finance talking to people who were in charge of that negotiation in Europe.

This was another task: obtaining a debriefing every time there were meetings in the European union between financial officials from the French representatives. Later on I traveled to Brussels, and, with Treasury's permission, talked to a few of the people involved in some of these issues, the staff in the European commission and the US mission to Brussels at that time including the Ambassador

It was a busy period but one of collaboration and reporting of an analytical type was quite different than my first tour in France and several of my tours in developing countries where we were involved in governing as well as reporting.

Q: Well, in 1982 where did you go?

GORDON: I came back to Washington.

Q: And how long were you in Washington?

GORDON: Until I retired at the end of 1985. So it was about three years again. And again, there was really at that point no suitable job for me. So I was given various odds and ends of assignments until 1983 when the Argentine issue became important again with the end of the military government and the restoration of democracy.

My old friends the radicals who had been “couped” out of power in 1966 were reelected after the military left. In fact, the man who became central bank governor had been deputy central bank governor at the time. Treasury was worried that the word “radical” really had a meaning in Argentina. Instead of being radical like French radicals which means next to nothing-it is a synonym for conservative.

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Because Argentina was a major debtor, they feared an Argentine default which could have had repercussions in the rest of Latin America. So someone said, "Gordon has been to Argentina-he is the only one now on the staff who knows Argentina. So why don't we send him down on TDY?" So I negotiated again, what terms I would take. It was a funny assignment. It wasn't TDY for two weeks. I was there on and off over a period of five months. I didn't want to go down for five months, I told them, but to come back and forth for both for personal reasons and also to keep some control over what was happening.

There was no AID at that point. The DCM at the embassy was John Bushnell who had been in the Treasury on assignment. He was a foreign service officer who specialized in Latin America. A very difficult guy, by all odds, and the most disagreeable person I have ever run into either in the Treasury or the State Department. He generated a lot of hostility. I had many foreign service officers asking me whether I could not make a recommendation to get rid of him, they disliked him so.

My relationships with the embassy were a little bit loose. At one point the ambassador complained I wasn't spending enough time telling him what I was doing. But I just re-established relationships with the ministry of finance, Central Bank, just to see what was going on...what their views were. We took a fairly friendly view you know, saying to them, "If you don't pay on time we will have to declare you in default. If interest is more than 90 days in default then there are certain consequences we will have to take that will hurt your credit rating. It would be in your interest not to do so let's see what we work out so you can pay."

Basically I tried to figure out what they were going to do. I soon found out they were not going to do anything very radical but they had a very serious inflation problem. Inflation was 400-500 percent a year and the exchange rate was just falling like a stone. And we tried to work out some sort of stabilization program. But, they were wary of the IMF and did want to go into one of its programs. My role, with the help of the embassy, was basically to nudge it into some kind of agreement to help them stabilize, to arrive at a formula that

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would prevent us from having to invoke sanctions if they defaulted on interest over 90 days.

In the end what happened was the Mexicans came in and played a rather interesting role. They thought if Argentina defaulted it would hurt their credit rating and they had absolutely no intention of defaulting their debt. They were very orthodox in their approach to this whole thing. They proposed that they and several other Latin American countries with the United States, lend Argentina some money temporarily. Much of my time was really spent negotiating this agreement with the Mexicans and with the Argentineans. David Mulford was assigned by the Secretary, Donald Regan, to work on this problem as an initial job. He later became assistant secretary.

I knew Argentina and some Spanish, although it was terribly rusty after an absence of fifteen years. He didn't know any Spanish. He came down for a week and we negotiated this agreement. It was one of those down-to-the wire things. We stopped the clock. We finished the agreement at 2:00 AM in the morning and then we went out and had dinner because in Argentina you can have dinner at 2:00 in the morning. And you know, it was interesting, exciting at the time. I was glad to be back. I also went to see some old friends. We had some personal friends who were ministers in earlier governments who remained friends of mine that I went to see.

Q: Was there...?

GORDON: My wife came down for a few weeks.

Q: Was there bitterness about the American role which is essentially one of support of Great Britain over the Falklands?

GORDON: Well, there was some attitudes...some bitterness I think in the Argentine population. The radicals did not take that view. They felt, if anything, that the American position had helped them restore democracy in Argentina. So I think that at the official

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level there was a good deal of friendliness with the United States. And they wanted help from the United States. There was no question about it. There were really no foreign policy issues at that time with the radicals.

The basic problem with Argentina was internal economic. They had a serious inflation which was the outward symptom of years of bad economic policy that began with Peron after WWII. They could never muster the political will to overcome in part because very little of the population believed in the orthodox medicine needed to solve the problem.

That assignment lasted until the spring of 1984. I came back and David Mulford became assistant secretary. He established a new office on international debt policy and he made me the director of it. That was my last job in the Treasury. I had that job from the 1984 to the end of 1985. I did the initial drafts on what later became the Baker Plan as well as on various other issues.

Q: This was basically trying to help the debt problem in LatiAmerica?

GORDON: Basically our issue was finding rescheduling terms which were acceptable to the commercial banks. The real issue was commercial bank debt owed by Latin American countries which was very large in relation to American bank capital at that time. There was a fear that a massive default could cause runs on banks and the collapse of several of them. In the end everybody negotiated except the Peruvians who defaulted. Happily, their debt was not large enough to have any serious repercussions.

Q: I am just curious...there was a time when our banks were rather loose when it came to giving out credit. Particularly to countries like Mexico and Brazil.

GORDON: Very loose. That is how it happened.

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Q: Was the Treasury doing anything to monitor in conjunction with the Department of State, I mean, somebody looking at a country and saying "Hey, fellows, this is really dangerous?"

GORDON: I doubt it unless it was very informal and at a very senior level...under secretary or secretary. I was unaware of anything official. The commercial banks, especially the New York banks who are the principal commercial banks, regard themselves as princes. They only come to the government if they have a problem and if you come to them and say that you want their assistance in such and such a country their attitude is that it is our business and we decide our risk and we think the risk is acceptable. Walter Wriston, who was the president of the Citibank at that time, said "Sovereign countries don't default." He'll remember that the rest of his life. Of course, sovereign countries could default.

So they were all anxious to get into this field because there was a great deal of money to be made. Because they could lend 300-400 million dollars and get 2 or 3% on that as practically pure profit and carry out that transaction easier and with far less cost than doing a project loan of 25 million dollars to build a power plant somewhere.

So they were all running around Latin America doing these loans. And the Latin American balance of payments in the late '70s looked pretty good. Of course, some of them undertaking really crazy domestic programs. Argentina was one of the worst, borrowing money right and left. It was clear certainly to many Argentines that this thing couldn't last very long and they were shipping their money abroad. Why commercial banks went on, I don't know. But they did. Even after the 1979 oil price increase and the subsequent recession in Europe and the United States made Latin America's prospects much worse, very few cut back.

And it was only when Mexico...actually Argentina set it off, but since Argentina didn't have the political relationship with the United States that Mexico had, the crisis was really

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established when Mexico said, "Look, we're bankrupt, you've got to help us." That was 1982.

There is another point. Debt crises break out with little warning because no one really knows the dimensions of a country's indebtedness until payments stop and creditors come calling. This was true then and again in the most recent crisis in Asia.

Other than the Baker Plan, there really was nothing dramatic happening. Again, I found working in Washington in the Treasury, not very fascinating. Over a long period of time it gets boring even when you are in charge of something. I wanted to leave and take my retirement and get another job. Not to retire...but to get another job.

So I was able to join the Institute for International Finance. A friend of mine who was there and they were looking for somebody and they hired me. I worked for there as chief of the Latin American division but that didn't work out, as it turned out at the end. But at the time it looked like a very good job. So that was my official career. Since then I have been a freelance consultant in developing countries.

Q: Okay. talking about your career patten how are you going to keep them down in Treasury once they have seen Paris? This is true of many people in any foreign service. But the other one is that unlike the State Department, the Treasury really wasn't well equipped to absorb people to go out and come back. I mean, you pretty well have to live within your own little bureau to increase your power and all that.

GORDON: It is curious. The Treasury is a very small office but it reproduced on a micro-scale the bureau-ism that exists to a certain extent in the State Department and the Foreign Service. Therefore, at the senior level(I was a GS-17 converted to SES-4 in 1978) it is quite difficult to find a job when you come back from overseas. So sometimes people stayed on.

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We did have a man in Paris who joined as a junior man and became the senior man eight years later and retired there in 1975, Donald McGrew. And then after a few years-he had to go back to the States to take care of his parents but once they died, (they were very old), he came back and retired in Paris and died there. He spent practically his whole adult life in Paris. He had been my boss in the 1950s was there when I returned as Treasury representative. We used to see him and invite him over for dinner.

Q: Well, thank you very much.

End of interview